THE NEW FRAMEWORK FOR U.S.-JAPAN TRADE RELATIONS

JOINT HEARING

BEFORE THE

SUBCOMMITTEES ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT

AND

ASIA AND THE PACIFIC

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JULY 21, 1993

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THE NEW FRAMEWORK FOR U.S.-JAPAN TRADE RELATIONS

WEDNESDAY, JULY 21, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT, JOINT WITH THE SUBCOMMITTEE ON ASIA AND PACIFIC,
Washington, DC.

The subcommittees met, pursuant to call, at 1:30 p.m. in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the Subcommittee on Economic Policy, Trade and Environment) presiding.

Mr. GEJDENSON. The committee will come to order.

At today's hearing we have three witnesses: the Honorable Joan Spero, Under Secretary for Economic and Agricultural Affairs, Department of State; the Honorable Lawrence Summers, Under Secretary for International Affairs, Department of Treasury; and the Honorable Charlene Barshefsky, Deputy U.S. Trade Representative.

In good economic times, Japan's complex system of trade barriers was an irritant to U.S.-Japanese relations. In bad economic times, Japan's unwillingness to further open its markets to American products has become a weight around the neck of our economy. It has become a problem which demands an immediate and far-reaching solution.

That is why the approach adopted by President Clinton to U.S.-Japanese trade relations is welcome news. By insisting that our trade agreements with Japan contain quantitative and qualitative measures to determine Japanese compliance, the administration has signaled the United States will no longer simply accept Japan's promises on trade.

This new, get-tough policy approach to Japan is long overdue. Over the past 13 years, the United States has entered into 28 trade agreements and negotiations with Japan. Yet the U.S. trade deficit which Japan has skyrocketed from $17 billion in 1982 to $50 billion in 1992. In my own home State of Connecticut, $530 million in goods were exported to Japan last year, but without these barriers that figure could have been much higher.

We also saw in other sectors of the world that our trade relations came into greater balance as changes occurred between the EC and the United States. Similar changes did not occur between the United States and Japan.

In part, the $33 billion jump in our bilateral trade deficit is due to a myriad of nontariff Japanese trades barriers. Both blatant and subtle, American exporters face these impediments to free trade every day. American farmers are harmed by Japan's straight-out ban on some agricultural imports, particularly rice, but all U.S. firms have a tough time cracking Japan's interlocking corporate relationships which shut out outside suppliers.

Without question, the United States shoulders some of the blame. We provide too little assistance to our exporters, and our budget deficit has contributed to our trade imbalance with Japan. But just as the United States has finally taken action to reduce its budget deficits, Japan must move decisively to open its markets.

I believe the new framework for U.S.-Japanese trade negotiations announced in Tokyo is a very positive development, which departs from our past trade negotiations with Japan in several ways. Negotiations will focus on achieving results for American firms, not simply creating opportunities. They will also seek to create specific ways to measure whether Japan is living up to the trade promises. Finally, these talks have deadlines from 6 months to a year and will not drag on indefinitely.

I hope that the new framework will result in strong, verifiable trade agreements which will significantly increase American exports to Japan. Given that Japan is the second largest market for American exports, a significant downturn in U.S.-Japanese relationships is not in our Nation's best interest nor in theirs.

But if Japan refuses to negotiate meaningful, results-oriented agreements, Congress may turn to protectionism to solve this trade imbalance. Unsuccessful negotiations must also lead to a fundamental reexamination of the nature of our country's political, security and economic relations with Japan.

We are fortunate to have three critical members of the U.S. trade negotiating team before us. I would like to commend today's witnesses for their hard work in negotiating the framework, and I look forward to our future successes.

Before turning to our witnesses today, I would like to yield to Toby Roth, the ranking Republican, for an opening statement.

Mr. ROTH. Thank you, Mr. Chairman. And, Mr. Chairman, I would like to join you in welcoming our witnesses today.

And I have reviewed this, of course, from just about every angle, and I agree with our chairman's opening statement here today.

In trade terms, Japan is our biggest challenge. Last year Japan accounted for $49 billion of our $84 billion merchandise trade deficit—more than half. And so the cost is clear. Japan maintains defenses in-depth against imports while aggressively exploiting foreign markets.

In more than a decade of negotiations, Japan has tried to maintain the fiction that most of these trade obstacles are not government policy but are fundamentally rooted in their society and their economy. And now we have a new study by the Congressional Research Service which shows that, in fact, the Japanese Government is actively involved in discouraging imports and protecting domestic suppliers across the board—our own Congressional Research Service.

So I think it is important for us to recognize that our witnesses here today are on the front lines of the latest U.S. efforts to break down the Japanese trade barriers.

Quite frankly, we have been talking about this for so many years that I think all this falls on deaf ears. I think talk will get us nowhere, the framework for the agreement in Tokyo is broad in its scope and ambitious in its goals, but we have been down this road before and have come up with very little. That fact, together with the upheaval in Japan's Government last Sunday, makes many of us even more skeptical, and I can tell our three witnesses today, talking about this issue in the cloak room, this is basically what I find.

So the key question here today is how are we going to turn this framework into a reality that means something for America's exporters and for our economy.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you.

The gentleman from New York.

Mr. ACKERMAN. Thank you very much, Mr. Chairman.

Our joint subcommittees meet today to explore the new framework agreement on trade between the United States and Japan.

The Japanese relationship has long been as important as any the United States has in economic affairs, in regional security and in the creation of a sustainable world order.

Economically, Japan is our second largest trading partner and the number one buyer of American agricultural exports. It has become a major market for U.S. manufactured goods, from aerospace to computer software programs. Japanese products are commonplace on America's roads and in our homes.

Japanese foreign direct investment in the United States now trails only that of Great Britain, and Japanese and American companies have forged thousands of joint ventures throughout the world. Each country's national economic decisions impact the other as well as the global economy.

Our economic interests with Japan have moved to the center of the relationship. Japan's macroeconomic choices are as crucial as our own to global growth and the national economic renewal of the United States. Continuing asymmetries in access to our respective national markets poses serious problems to the relationship and must be dealt with.

This problem does not arise from differences in tariff levels or in official trade policy. In those respects, Japan argues correctly that it is as open as other large industrialized economies. Rather, the difficulties of access to Japanese markets arise primarily from invisible barriers to new entrants, domestic as well as foreign. Those barriers are the result of both private sector practices, such as the intercorporate Keiretsu relationships, and public policies, especially heavy regulation of the Japanese economy, which holds down private consumption and makes it exceedingly difficult for foreign countries to export to Japan or to produce there.

Hopefully, with the framework that was agreed upon by the United States and Japan, we can begin to address long-standing problems of market access to specific sectors of the Japanese economy and at lowering or eliminating various structural barriers to

exports to Japan. Our economic interest with Japan is at the core of our relationship, and I believe the framework is a beginning for both of our Governments to negotiate good faith on the five baskets of sectoral and structural problems.

The United States must continue to be firm on critical issues, but we must avoid creating unrealistic expectations about the reduction of the bilateral deficit. There is no quick solution. Improved macroeconomic performance in both countries will help. So will a firm, sustained American approach to the lowering of barriers in Japan. But we must not make the level of the bilateral deficit the exclusive test of our policy toward Japan.

The U.S.-Japan relationship is critical, and therefore, we must work hard in resolving our trade differences. I believe this new framework can be a new starting point for cooperation and significant results.

We look forward to hearing from our distinguished witnesses this afternoon in furtherance of our knowledge and insight into the new framework for our U.S.-Japan trade relations.

Mr. GEJDENSON. Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman. I am happy to participate in this joint hearing. I have a rather lengthy statement I would like to ask be put in the record.

Mr. GEJDENSON. Without objection.

Mr. LEACH. With that, let me just make just three very quick observations.

One, despite all the trade tension that we have, the United States and Japan continue to share a whole panoply of vested interests, geostrategically as well as in terms of a liberal international trade environment.

If we think about it, all the United States asked of Japan at the end of World War II was that it become a free enterprise, democratic and peaceful. And if we have any objection to Japan it is that they have been too successful on all three fronts. So they have become trade competitors rather than strategic adversaries. And that is a situation, I think, all of us should remark upon as a positive rather than a negative circumstance.

My own view is that the best way to keep any similar tension from arising and getting out of control is that Japan has to work much more assiduously to open its markets, even if they don't produce a precisely balanced trade pattern, but there is no excuse whatsoever for any protected markets within Japan itself.

Finally, let me just say that we have just had a very important election in Japan, probably their most important postwar election. And I think from an American perspective we should acknowledge that we don't know the repercussions of this election—in fact, I don't think the Japanese people in policy terms know that either.

But, in terms of process, the Democratic process could not be more vibrant or be more accountable than has proven to be the case, and that, therefore, as fellow legislators, I think we in Congress ought to certainly welcome to the legislature the new entrants and congratulate Japan on having conducted a marvelously successful election, one which is very exciting for its country and, frankly, has probably global ramifications not only in terms of pos-

sible policy shifts but also in terms of setting a model for other societies that are seeking Democratic solutions to internal tension.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you.

[The prepared statement of Mr. Leach follows:]

PREPARED STATEMENT OF HON. JAMES A. LEACH

Thank you, Mr. Chairman. On behalf of the minority, let me also extend a warm welcome to our distinguished administration witnesses. With the chairman's indulgence, I would like to make a few observations about fundamentals, perspective, and tone in U.S.-Japan relations.

First, the importance of the U.S.-Japan relationship simply cannot be overstressed. The relationship remains crucial to peace and stability in East Asia and is becoming ever more important to advancing a panoply of American foreign policy interests around the globe. Neither the end of the cold war nor Japan's emergence as the world's second largest economy has altered the enormous import of the U.S.-Japan relationship.

Consequently, the framework for all U.S. trade and economic discussions with Japan must be one that emphasizes not only the extraordinary importance of our bilateral relationship but shared interests and values.

Here I would note that no two countries have a greater stake in the continued viability of the multilateral trading system than the United States and Japan. Neither of our economies can prosper without the rules-based multilateral trading system which the United States was at the forefront of establishing at the close of World War II.

In this context, I have spoken to very few Japanese politicians—whether they represent the LDP, breakaway factions of the LDP, or even small leftist parties—who don't understand that their country's large persistent trade surpluses could undermine the free trade system and global economy on which Japan depends. Likewise, most Japanese with whom I've spoken understand that official and "invisible" barriers to entering the Japanese market—coupled with the persistent U.S.-Japan trade deficit—jeopardizes reasonable U.S. expectations of economic reciprocity and could undermine our broader bilateral relationship.

In this country Republicans and Democrats alike are looking for "results," but this does not necessarily mean microeconomic experimentation with managed trade theories that encourage economic nationalism at home and abroad, empower bureaucracies in Tokyo and Washington, reward Silicon Valley at the expense of Midwestern farmers, and provide greater job protection for politicians than workers.

It does mean, however, that there is no country in the world that has a greater vested interest in fully opening its markets to global competition than Japan.

Now for perspective. On the macroeconomic side, the administration has suggested that a key objective of the new framework agreement is a reduction of Japan's global current account surplus from its current 4 percent of GDP to 1–2 percent of GDP. But Japan's current account surplus has ranged from some 4 percent of GDP in 1987 to 1.5 percent in 1991, rising again in cyclical fashion in response to a recessionary climate at home and expanding exports abroad. In effect, the Clinton administration is apparently hoping to achieve the same result over the next 3 years which the Bush administration achieved by 1991.

More importantly, as Washington well understands but not so well dares to explain to the American people, while a reduction in Japan's global current account surplus should modestly reduce our bilateral trade deficit, it is not likely to eliminate it. Tough rhetoric on U.S.-Japan trade may forestall protectionist legislation in the short run, but it could also generate nationalist resentment to alleged American unilateralism and ultimately backfire on Capitol Hill should the deficit fail to be significantly reduced.

Hence my concern about tone in our negotiations with Japan. As reflected in last Sunday's national elections, this is a time of dynamic change in the traditional "cold war" structure of Japanese politics, with uncertain ramifications for our bilateral relations.

Hopefully political reform will end the chronic underrepresentation of urban voters in the Diet and encourage a new generation of political leaders to pursue a more import and consumer friendly economic policy. But a more insular social and political response to U.S. trade policy cannot be totally discounted. Washington should seek to secure the maximum American commercial gain consistent with GATT, but we should also always speak to Japan in a tine befitting a close friend and ally.

Despite recent tension, the United States and Japan continue to share a remarkable coincidence of interests economically, strategically, and in terms of democratic political philosophy. All the United States asked at the end of World War II was that Japan be democratic, free enterprise oriented, and peaceful. Any concerns the American people may have stem from the Japanese heeding too well rather than too little to our advice.

The best way to keep simmering tensions from coming to a boil is for the two countries to work together to defend and expand a liberal international economic order and for Japan, without foreign pressure or gaiatsu, to become a model of free trade internally as well as advocate of same abroad. Thank you, Mr. Chairman.

With that, we will begin with our witnesses, starting with the Under Secretary for Economic and Agricultural Affairs. Thank you. Please proceed as you are most comfortable. Your entire statements, of course, will be placed in the record.

STATEMENT OF HON. JOAN SPERO, UNDER SECRETARY FOR ECONOMIC AND AGRICULTURAL AFFAIRS, DEPARTMENT OF STATE

Ms. SPERO. Thank you, Mr. Chairman.

Chairman Gejdenson and Chairman Ackerman, members of the committee, I appreciate the opportunity to be here this afternoon to testify on the U.S.-Japan economic framework. As we address our economic relationship with Japan, we want especially to maintain close consultations with the Congress at each step.

We are, I think, at an important point in the U.S.-Japan bilateral relationship. The President took an important step at the Tokyo Summit to address imbalances and open markets through our agreement on a new economic framework and through joints efforts on the Uruguay Round market access package. Today, I would like to address the new bilateral economic framework.

As the President has stated, there is no more important relationship to the United States than that with Japan. The United States and Japan are the world's two largest trading nations, accounting for almost one-third of world GNP. We are Japan's largest export market. As has been pointed out today, Japan is the second largest market for U.S. exports and our largest market for agricultural exports. Our countries have the potential and the responsibility to drive world growth and build a strong world trading system.

We cooperate closely with the Japanese to maintain peace and stability in East Asia and throughout the globe, discouraging North Korea from pursuing a nuclear weapons program, encouraging China to support nonproliferation and improve human rights, organizing G–7 support for economic and Democratic reforms in Russia.

Japan also strongly supports our military presence in their country. By 1995, Japan will pay over 70 percent of the cost of stationing U.S. forces there, about $4 billion per year.

The United States and Japan share fundamental interests in global issues. We cooperate closely on global environmental protection, assistance to developing countries, peacekeeping operations and many other issues. It is our policy to continue and to build on this. Though economic in focus, the new framework contains mechanisms for cooperation on the environment, AIDS, population and development of technology and human resources.

In contrast, in recent years our economic relationship has been characterized by increasing friction. Relations are becoming corro-

sive due to large and unsustainable trade and investment imbalances. This administration, therefore, has made economic issues our highest immediate priority with Japan. That is why the President and Prime Minister Miyazawa agreed when they met in April to develop a new framework to address our economic agenda.

The framework for a new economic partnership, which we have now negotiated, outlines steps to resolve economic imbalances while emphasizing our shared responsibility to promote growth, open markets and free trade.

The foundation of the framework is an understanding that Japan will achieve a highly significant reduction of its current account surplus and a significant increase in imports, while the United States will reduce its budget deficit and promote competitiveness. This will improve consumer welfare in Japan and create opportunities for U.S. firms and U.S. workers.

We will conduct negotiations in five areas: first, government procurement; second, regulatory reform and competitiveness; third, other major sectors, including the auto and auto parts industries; fourth, economic harmonization. That includes foreign direct investment, intellectual property rights, access to technology and long-term buyer-supplier relations. And, finally, the implementation of existing arrangements and measures.

The framework is designed to encourage Japan to take on the responsibility of a major trading power to contribute to, not just benefit from, open markets and competitive opportunities for all. Japan still maintains an unacceptably high current account surplus which impedes world economic growth and life-style improvements for Japan's citizens.

Japan also has a strikingly low level of manufactured imports to GNP, at 3.2 percent compared to the G–7 average—that is the G–7 average excluding Japan—of 7.3 percent. Japan has by far the lowest level of inward direct foreign investment of the developed countries, with .6 percent of all global foreign direct investment, compared to 44.3 percent for Europe and 24.2 percent for the United States.

Let me describe the characteristics of our framework that distinguish it from past efforts.

First, we in the United States are on the road to correcting our domestic problems. At the G–7 summit in Tokyo, I found the Japanese and other G–7 partners placed great stake in President Clinton's commitment to economic renewal in the United States—the administration's highest priority.

His initiatives to reduce the Federal budget deficit and increase long-term investment add immeasurably to our credibility, credibility we need when we call on Japan to do its part to support the free trade system, including implementing policies to stimulate domestic demand-led growth, deregulation to promote competition, and genuine market opening for foreign goods, services and investment.

We will continue to work with the Congress in developing our international economic agenda.

Second, we are insisting on achieving real results that can be measured by qualitative and quantitative criteria. The administration will be looking at a range of criteria, or benchmarks, for every

sector or structural problem. These indicators will be used to measure progress in eliminating barriers to market access.

Third, the agreement focuses on sectors of interest to U.S. industry, with specific timeframes for completing agreements. Japan has committed to reach agreements in the areas of autos and parts, insurance and government procurement within 6 months. We expect to have agreements in all other areas covered under the framework—that includes financial services and reform of the distribution system—within a year.

Fourth, progress on framework negotiations will be reviewed and included in the statements at the biannual meetings between the heads of government. This strong political momentum, we believe, will place additional pressure on negotiators to produce tangible results.

Finally, the framework integrates negotiations on macroeconomic, structural and sectoral issues, folds in previous agreements and tracks compliance with existing sectoral agreements. All of these elements will be coordinated, not addressed piecemeal as before.

It is important to note, however, that agreement on the framework—an outline of steps to take to achieve our agreed goals—is just the beginning. Progress will not occur automatically. Negotiations will not be easy. We have learned firsthand that our Japanese colleagues are tough negotiators. We are asking the Government of Japan to take steps that are politically difficult, but we will insist that it implement its commitments.

The unanimity of positions and purpose within our Government we believe is key.

In this connection, I want to stress that U.S.-Japan economic relations are an issue of strong interest in the Clinton administration. The President has demonstrated his personal commitment to improving the bilateral economic relationship which we all agree is essential to ensure the health of the overall relationship.

Management of our economic relations under the framework is being coordinated by the White House, reflecting the President's interest and attention and our Government's strong commitment to work as a team in this endeavor.

Our goals and strategy have been worked out among the various U.S. agencies. We all back them completely. I would like to express the State Department's strong support for the framework process and my intent to make every effort to ensure it produces the tangible results we seek.

Thank you.

[The prepared statement of Ms. Spero appears in the appendix.]

Mr. GEJDENSON. Mr. Summers.

STATEMENT OF HON. LAWRENCE SUMMERS, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF TREASURY

Mr. SUMMERS. Thank you very much, Mr. Chairman. I am delighted to have the opportunity to testify before these two subcommittees on the new framework for Japanese economic relations.

It was not an accident that at the Economic Summit the economic declaration was entitled, A Strengthened Commitment to

Jobs and Growth. The objective of the new U.S.-Japan Economic Framework is the same: to provide the increased exports to Japan that will create new, high-paying jobs for Americans.

This is a critical time for our economy. With the budget deficit at long last on a declining trend, U.S. exports will have to be an important engine for economic growth if the recovery is to gain speed.

Since the mid-1980's, over half of our growth in income and almost all of our growth in manufacturing jobs have resulted from export growth. That is where this framework comes in. We at Treasury are enthusiastic and fully supportive of this framework because of the new opportunities it will provide to sell to the world's second largest economy.

The framework represents an agreement on ends, on means and on a process for achieving them. The ends are a new, more balanced relationship between the United States and Japan, including—to use the words of the framework agreement—a highly significant reduction in Japan's external surplus and increase in its level of imports.

The means to achieve these goals include both macroeconomic policies and structural and sectoral reforms to increase market access for foreign goods, services and investment, monitored closely with real, hard measures.

And the process is periodic. Every 6 months meetings will take place at the highest political level, carefully prepared by discussions of senior negotiating teams from the various ministries concerned with economic policy in both governments.

The world economy is in its third year of slow growth. Prospects are for a modest recovery. Thirty-six million people will be unemployed in the industrialized countries at the end of this year.

Japan's current account surplus is the major asymmetry in the world economy, just as the U.S. deficit was in the 1980's. Japan, by selling much more than it buys, drains demand and, therefore, drains growth from a demand starved world economy.

The achievement of domestic demand-led growth consistent with the significant reduction in Japan's external surplus will require continued fiscal action, according to current economic forecasts.

And, as part of this framework agreement, Japan has committed to do what is necessary to promote strong and sustainable domestic demand-led growth in order "to achieve over the medium term a highly significant decrease in its current account surplus".

With Japan's current account surplus now running a little above 3 percent, we are convinced that a highly significant reduction in that current account surplus would take it below 2 percent of GDP. Were that to occur, the extra demand would result in 1 million to 2 million jobs around the world and several hundred thousand new jobs in the United States.

Macroeconomic policies to create a growing market—to create the possibility of breaking in and expanding our exports—are an important part of the story, but Japan's selective engagement with the global economy will persist even if macroeconomic policies tilt toward growth.

I want to speak briefly of the financial sector in Japan, a particular concern of ours at Treasury.

The Japanese financial market is the most heavily regulated and closely managed of any major industrial country. The principal providers are preordained. New products and new entrants are discouraged. And the end result is that U.S. firms, which can make it in every other market, cannot break into the Japanese market.

The Treasury Department has been negotiating on these issues for many years in both bilateral and multilateral contexts. We have made some progress. Recently, for example, we reached an agreement under which investment advisors can now manage up to one-third of private employee pension assets, but they are still precluded from other segments of the market. And we have also been successful in protecting the position of U.S. firms in the market—in the derivatives market.

However, opening Japanese financial markets—and I think this could be said of other markets as well—is like peeling an onion. Progress is made one layer at a time.

Within this new framework we have included a basket on regulatory reform and competitiveness which will address the kinds of issues that I have been referring to with regard to financial services. We will work to eliminate the restrictions that have outlived their usefulness and which now stand as impediments to market access. We will be looking at financial services, insurance, competition policy, transparency and questions relating to distribution.

In the financial services area, our focus will include increasing access to Japan's trillion dollar pension fund market, reducing the cost of establishing a foreign mutual fund in Japan, permitting U.S. securities firms to market their expertise in new and innovative products, and reducing the huge panoply of capital controls that limit access to the Japanese financial market.

To sum up, the framework which we have agreed upon with the Japanese represents a new, integrated approach to our economic relationship. It is a foundation—more than a blueprint, but much less than a full construction. We are determined to realize its potential. That can only be done with intensive and focused negotiation, and all of us who are involved in developing this framework are determined to do just that in the months and years ahead.

[The prepared statement of Mr. Summers appears in the appendix.]

Mr. GEJDENSON. Ambassador.

STATEMENT OF HON. CHARLENE BARSHEFSKY, DEPUTY U.S. TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you, Mr. Chairman and Chairman Ackerman. It is a pleasure to appear before you today to report on the U.S.-Japan economic framework.

Along with completion of the Uruguay Round and the NAFTA, efforts to resolve our bilateral economic relationship with Japan are a major trade policy goal of this administration. The new framework, concluded just hours before the President's departure from Tokyo on July 10, constitutes an important step in addressing this economic relationship.

The administration recognizes that many factors, including our own budget deficits, have in the past undermined our competitiveness with Japan. We admire Japan's economic achievements, but,

given its size and breadth, the Japanese economy remains significantly less open to foreign imports than it should be and dramatically less open than our own.

As the two largest trading nations on earth, we share a particular responsibility to maintain an open and vibrant world trading system. Economic imbalances in Japan's relation with its trading partners threaten this system. For these reasons, the administration sought a framework for negotiations with Japan that would allow us to make steady and significant progress toward opening the Japanese market, focusing on sectoral and structural practices as well as macroeconomic issues.

We sought to establish tight timeframes for negotiation on key issues, and we wanted to utilize benchmarks to measure progress in market access. We went into these negotiations in a strong position because the administration's sharp focus on the economy has led to real efforts to attack the very domestic weaknesses that Japan has in the past cited against us.

The U.S.-Japan framework meets all of our negotiating objectives. Under it, the Japanese have agreed that tangible progress toward market access and sales must be achieved and that progress toward market access is to be evaluated on the basis of quantitative and qualitative indicators.

Under the framework, Japan has also agreed actively to pursue policies which are intended to achieve a significant decrease in its current account surplus and to promote a significant increase in its imports of foreign goods.

In its five baskets, the framework fully addresses our negotiating priorities in the areas of government procurement, autos and auto parts, and regulatory reform. It provides for the full implementation of existing agreements and arrangements and will serve as a forum in which to address areas of economic integration such as intellectual property rights.

Finally, the framework spells out a number of areas for bilateral global cooperation.

It is the results orientation of the framework that sets it apart from past agreements. The framework fully establishes, as a principle, the use of objective criteria, both qualitative and quantitative, to evaluate progress toward market access in each sectoral and structural area in each basket.

Equally important, the framework spells out a timeframe for negotiations, anchoring the dialogue in biannual meetings between the President and the Prime Minister. This mechanism will provide strong momentum to conclude agreements on our priority issues. Significant market access barriers in government procurement, the insurance market and the automotive industry are to be completed by early 1994. Remaining agreements are to be achieved by July, 1994.

This is a framework for future negotiations. By itself, it constitutes no market opening. It guarantees no future success. It represents no panacea for the bilateral economic differences that have corroded our relationship with Japan. The framework sets out a direction and some key principles for resolving these differences. Very difficult negotiations lie ahead, including the enforcement of trade agreements already in effect.

We are committed to using this framework as a principal vehicle for addressing the economic issues within it, but if tangible, measurable progress toward market access is not evident, we will not hesitate to use other approaches that Congress has provided. These prerogatives have been fully preserved in the framework.

However, our strongest tool in building on the foundation established by the framework is the continuing commitment of this administration at the highest levels and the Congress to seeking real, measurable progress in our economic relationship with Japan.

Thank you very much.

Mr. GEJDENSON. Thank you very much.

[The prepared statement of Ms. Barshefsky appears in the appendix.]

Let me ask a couple of quick questions here, and I will try to use the timer so we will go through——

Are there too many of you negotiating for the United States? You all seem to get along real well, and we are very hopeful, obviously, but should we have this——

My friend, Toby, here talks about a trade agency constantly. You are very cooperative. Your goals are the same. Is the State Department in lead here? Does Treasury lead? It is all broken up by sectors. Who speaks at this stage? That may be one of the problems.

Ms. SPERO. We will all speak.

Mr. GEJDENSON. Start with the Ambassador. She was speaking last.

Ms. BARSHEFSKY. Sure. Thank you very much.

No, we don't have too many negotiators because we don't all talk at the same time. We each have different areas of expertise. Treasury's is obviously concentrated on the macroeconomic side and on financial services. USTR's is concentrated in government procurement and compliance. The State Department's expertise is concentrated in economic integration and global cooperative issues. The Commerce Department's expertise is concentrated in the automotive sector.

These expertises have allowed us to divide up in an extremely efficient way and in a relatively nonoverlapping way the manner in which our discussions with Japan have proceeded so far.

Mr. GEJDENSON. I will come back in 6 months, and you will tell me if you still agree with that. That is great.

One of the estimates are that if we were to open up Japan, we could gain as much as a half million jobs in the United States, somewhere between $9 billion and $18 billion in additional market.

And I believe when I was in Japan there are certain sectors they simply just said were closed to the United States. They were upfront about it. They could not open certain agricultural sectors because the diet had not been reapportioned in 100 years and there were overrepresented agricultural districts that had too large a control in the ruling faction of the ruling party; that their banking—this was back in the early 1980's, when we had banks and insurance companies that were healthy—their banking and insurance sectors were too immature to face direct competition so we could not compete there, and they had a lot of reasons. And, in the final analysis, in every instance where we had a chance to compete, they wanted to keep us out.

Then we saw agreements on computer chips that supposedly were going to open up access. And time and time again an agreement, an agreement, and in each case nothing happened. And now you have some targets and what have you, but the political ground has shifted.

Japan—those 450,000 jobs don't come out of the air. To some degree, those are jobs that now exist in Japan. The new government, it seems to me, is not stronger than previous governments. In many ways it is weaker. What are the pressures inside of Japan that will give the Japanese Government the political ability to come to an agreement that has the kind of framework that you describe so that we are not once again led down a new path with new kinds of standards that once again leave us with closed markets to American farmers, to American manufacturers?

Maybe we will start at the other end and work across.

Ms. SPERO. I will make a couple of comments in response to that.

First of all, it is important to point out we have the commitment of the Japanese Government at the highest level and of the bureaucracy with which we were dealing. This is not a policy, let's say, of the Miyazawa government. This is policy that will be continued.

It is our full expectation that whoever is in place in Japan, leading Japan in the future, will continue and implement this negotiation. Now, that is not to say the negotiations are going to be easy. So we see it, first of all, as a long-term commitment.

Secondly, we have put in place, as part of our process, these twice-a-year meetings at the level of heads of states, and we think that that will provide a political momentum and visibility for coming to agreement and resolving issues.

And the third point I would make is that increasingly we are seeing that this is in the interest of the Japanese consumer and that the Japanese consumer is increasingly aware of disparity of prices, increasingly aware of the costs of the distribution system, and that we think that over the long haul the fact that we will be opening markets, providing more competition, lowering prices will be something that will find support among Japanese consumers.

I was struck, Mr. Chairman, several years ago when I was in the private sector and happened to be in Japan at the time of the launching of the SII talks, that they were extremely popular in Japan and they were popular with the people and the opinion leaders I was talking to because they were expecting that there would be changes in areas like their distribution system. So I think there is potential for not only high-level political support but also a more broad public support.

But I should say——

Mr. GEJDENSON. Where the consumer benefits?

Ms. SPERO. Where the consumer benefits.

Mr. SUMMERS. I would just reinforce what Joan said. I don't think any of us can accurately foretell Japanese political developments, and I wouldn't want to try to do that. I would emphasize that over the last few years the share of consumption in Japanese total income has actually declined quite substantially, even during a several-year period when their commitment was to seek to become a life-style superpower.

I can't help but think that as their political system becomes more responsive to the popular will, it will come to put more of an emphasis on consumption, and that will translate into increased imports.

Mr. GEJDENSON. Let me just finally say that one of the things I always try to convince previous administration's is that an angry Congress ought to help you.

If we are over here pushing and saying that we want to have super 301's reinstated, or other such actions out of frustration or, frankly, of decades of what I consider unfair trade practices, that you ought to—maybe you should—need to publicly say, no, we don't want those things, but you should be waving us on, because I think what the Japanese Government has to understand is that the Congress, intuitively, has a much tougher line on trade policy and that if you are not successful, you will see a coalition of Republicans and Democrats here that will look to super 301s and other areas.

Do you see downsides to a tougher Congress? Does it complicate your work in any way?

Ms. BARSHEFSKY. We have formed——

Mr. GEJDENSON. Check this with Nydes when you go back, too.

Ms. BARSHEFSKY. I can imagine, yes.

We have formulated the framework in such a way that we believe what is achievable under U.S. trade law can also be achieved under the framework. That is, we have specified with particularity the key issues we want to negotiate. We have set forth very strict time deadlines. We will use benchmarks to measure progress, and that progress is anchored in biannual heads of state meetings.

But, in addition, we have reserved all rights to take action with respect to all national laws, including all rules, regulations and statutes pertaining to international trade. We have in the framework not only a means to address the relationship in a coherent manner and a manner designed to produce early results, but we have also reserved the right to use our trade laws, the extent to which the framework does not provide the results that we are seeking.

Mr. SUMMERS. If I could just add a comment to that that I think is relevant to your question.

We have all provided a number of reasons why we are hopeful that we will be more effective than we have in the past. I think there is an additional one.

We are not reluctant warriors. We are not seeking to open the Japanese market because if we don't Congress will do it. We are doing it because President Clinton believes that success in promoting exports in general and promoting the opening of Japanese markets in particular is critical to the success of our economic program in the United States. And, in that sense, this is a determination of the administration, not one that is being pushed on it by some outside force.

Mr. GEJDENSON. My colleague's indulgence one moment.

So you support the super 301s?

Ms. BARSHEFSKY. Ambassador Kantor, as you know, has already testified before the Senate Finance Committee and the House Ways and Means Committee that the administration would support

super 301 legislation if it is introduced. But there was a great concern about the timing of that introduction.

Mr. GEJDENSON. Thank you. Mr. Ackerman.

Mr. ACKERMAN. Thank you very much.

Secretary Summers, in your remarks you mentioned that opening Japan's financial market is like peeling an onion. Progress is made one layer at a time. Most people I know, admittedly, they are mostly members, when they want to get at an onion, they don't bother peeling it, they go right for the center. They don't seem to have the patience to peel an onion, or they don't know what to do with the peels, maybe, but they basically go right for it.

Do we have the patience to do this one at a time as a people? Is this a waiting and stalling game?

Mr. SUMMERS. If I might just continue the metaphor, those who have been involved in this process for some time tell me that there are frequently tears involved in the attempt.

I think we are going to be less patient than we have been in the past. I think we are going to be looking to a different kind of agreement, an agreement that will be much more directed at producing measurable results than the agreements that we have had in the past, that is not going to be confined to questions of process but is going to look to questions of outcome. And I think that will mean that we will make more progress than we have in the past.

But I think, particularly in a sector that is as heavily regulated as the financial sector, it would not be realistic to predict that overnight we are going to see sudden transformation. But I think that we are certainly going to stick with it. It will be a different kind of process for reaching an agreement, and it will be outside of the bureaucratic level, and we are going to make sure there is real political involvement in that process.

So I think we will at least be taking a few layers at a time.

Mr. ACKERMAN. I understand there is even some new machines that do it quicker and better. You just drop it in and push a button and, whoop, it liquefies the whole thing.

On the macroeconomic side, Japan, within the framework, committed to pursue policies that would achieve, and I quote, "a highly significant decrease" in its current account trade surplus. How do you quantify that? What does a highly significant decrease in the surplus account mean? And what are the policies that Japan should pursue in order to be able to achieve that objective?

Mr. SUMMERS. There are two components of that.

One component is a market opening in individual sectors, and I think Ambassador Barshefsky will probably want to say something about that.

The other component is macroeconomic policies directed at expanding its economy and particularly expanding its economy in the direction of imported goods.

From our perspective, expansionary fiscal policies, tax cuts or, alternatively, more government spending oriented toward procuring foreign goods are the most effective macroeconomic tools for reducing the current account surplus.

You know, the current account surplus, which is now well above 3 percent of GDP, was as low as 1.2 percent of GDP in 1990. And what that indicates is when there is a real will to expand the Japa-

nese economy, real things—real things can happen as a consequence.

Mr. ACKERMAN. Miss Barshefsky.

Ms. BARSHEFSKY. Yes. Thank you.

On the microeconomic side, the framework will focus on those areas where the Japanese Government either controls import access, for example, in the case of government procurement, or where the Japanese Government is highly influential in a particular sector, as, for example, in the automotive sector.

In this regard, we intend to focus our efforts on persuading the Japanese Government that it is in its interest and the interest of its consumers that increased access be achieved. We will utilize various qualitative and quantitative benchmarks, both as directional indicators and as evaluative indicators. That is, both to give us a sense of where we want to go in terms of market access, and where we are at any given point in time. These indicators can be many and varied depending upon the particular sector at issue and the particular type of agreement that is under negotiation.

Mr. ACKERMAN. When we utilize those various indices and come up with whatever we determine at that point as being a significant increase, are the Japanese going to agree to the standards that we suggest are significant?

Ms. BARSHEFSKY. This will be a matter for negotiation. We have made it very clear to the Japanese that, to the extent we cannot agree on the appropriate indicators to utilize, the United States will, if it must, unilaterally apply indicators and assess progress on that basis.

Mr. ACKERMAN. Thank you.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Ambassador Barshefsky——

Ms. BARSHEFSKY. Yes?

Mr. ROTH [continuing]. This report by the CRS I was referring to in my opening statement says that the impediments are really a matter of Japanese Government policy across the board and not some cultural or societal impediments. What is your reaction to the conclusions of that study?

Ms. BARSHEFSKY. Congressman Roth, I have not seen the study yet. I will take a look at it, and I would be pleased to provide you with my reactions in writing if you would like.

As a general matter, from the analysis that we have applied to the issues covered under the framework, there is no question but that Japanese Government practices with respect to overregulation and the lack of transparency characterize virtually every sector that we have looked at.

Mr. ROTH. So, basically, what I get from your answer is that, while you have not read it but just a cursory review, you would say, yes, that is probably correct.

Ms. BARSHEFSKY. From your description I would say, yes, it sounds correct.

Mr. ROTH. Thank you. I appreciate your forthrightness in your answer.

Mr. Summers, this agreement, this pact we have with Japan, is this significant or is this really just a photo op at a summit? You

know, these summits—I am sort of cynical. You always come away with something.

Mr. SUMMERS. I would—I don't think I can find a better way to describe it than the phrase I used a little earlier. I think it is a foundation. It is more than a blueprint. It is not an agreement to disagree, but it is not an agreement to agree either, and we have a lot more negotiating to do with it.

I think for the first time, however, we have a structure that commits the two heads of government to focus on the economic relationship periodically. For the first time, we have agreement on goals: highly significant reduction in the Japanese current account surplus, a significant increase in imports. And for the first time we have an agreement on means, trade agreements that will emphasize results, that will rely on quantitative and qualitative indicators.

So I think the combination of the process at the center of the political relationship, the agreement on ends and the agreement on means, makes this a quite significant agreement that has tremendous potential, but it will be up to us in negotiations in coming months to fulfill that potential because this agreement certainly, as Charlene said, doesn't open any markets in and of itself.

Ms. BARSHEFSKY. I would add——

Mr. ROTH. I am sorry.

Ms. BARSHEFSKY. Please.

Mr. ROTH. I was going to say it is always refreshing to have witnesses that are very frank and forthright like Ambassador Barshefsky.

And I was going to mention, when I read in the Wall Street Journal your counterpart, Saito, he said—he is the newly appointed minister—he said, the accord does not commit Japan to taking any short-term steps to revive its sluggish economy. The pact, he said, does not have any clear meaning and doesn't mean much.

So when I read that, I thought where does that leave us?

Mr. SUMMERS. I think it leaves us with a lot of—I think it leaves us with a lot of negotiating to do. I think the words highly significant are pretty clear. I think if you look at the way this framework agreement was reached it really shows the crucial role of heads of government and of Prime Minister Miyazawa's involvement, of President Clinton's direct involvement.

The fact we will have that kind of involvement every 6 months on the economic issues means that it is going to be much more difficult to engage in all kinds of dilatory tactics than have happened in the past.

Mr. ROTH. You said every 6 months you have benchmarks. Every 6 months we will be at a certain position, is that right?

Ms. BARSHEFSKY. We will assess where we are every 6 months against various benchmarks, yes.

Mr. ROTH. Well, if we had certain benchmarks that say this is where we are going to be every 6 months, I think it would be good. Otherwise, the Japanese will feel we are just going to be talking all the time. We have done this for 10 years.

And I don't know, if Japan doesn't agree, what is the pain? Are they going to feel any pain if in 6 months or a year they don't come to—what pain will they feel, really?

Ms. BARSHEFSKY. As we have indicated, this administration has reserved all rights under its trade laws. This substantially distinguishes this effort from, for example, SII, under which the United States agreed that measures achieved within the SII would not be considered actionable under section 301. We have not done that with this framework.

This administration has showed extremely resolute action with respect to the enforcement of existing arrangements and agreements and with respect to the enforcement of U.S. rights abroad. It has taken action under Title 7 against the European Community. It has taken action against Japan under Title 7. It has taken a variety of special 301 actions against various countries on inadequate protection of intellectual property rights. It has pursued bilateral relationships in a variety of fora with no desire to engage in long discussions or long consultations, particularly where the issues are already well-known and have been well addressed in prior talks.

It is for that reason in part that the timeframes under the framework are very short. We don't really need to talk that much. Many of these issues have been under discussion for many, many years. The issue now is to take action and to produce measurable progress, and we will be resolute in that aim.

Mr. ROTH. My time is running out, but I like your attitude because I remember when we had a problem with Japan before. Reagan, at one time, did utilize a 301, and we did make some headway after that. So I hope that maybe we can remember that example. Thank you.

Mr. ACKERMAN [presiding]. Mr. Leach.

Mr. LEACH. Thank you, Mr. Ackerman.

As I look at this panel and think of the number of—I mean, extraordinary number of Japanese bureaucrats that spend a lifetime on these issues, I think there is truth to the sage observation to be outmanned is not to be outwitted.

In any regard, given the difficulty of these times and as one who, frankly, had exceedingly low expectations of the summit—and I must say that, given the low expectations, they have clearly been surpassed, but how much nobody knows. But given the fact that the global economies are not growing particularly, at least in the industrial world at much of a significant pace, it is pretty hard to achieve significant, progressive change.

In that context, I was really intrigued with one comment—and I don't know if it was yours, Secretary Spero, or yours, Ambassador Barshefsky, that the bureaucracy had committed as well as the political system. What do you mean by that? That has never been articulated before a congressional committee related to another society.

We all know in Japan the bureaucracy plays a disproportionately powerful political role. What do you mean by bureaucracy commitment? And is the Ministry of Trade the same as the Ministry of Foreign Affairs? And do we now deal state to state as bureaucracy to bureaucracy? What are you referencing? Was it you?

Ms. SPERO. I was the one.

Mr. LEACH. Please.

Ms. SPERO. What I meant to say—and then I can pursue in response to your question—was that I felt that we had a high-level commitment from Japan at the political level as well as the senior levels of the bureaucracy.

In Japan, as you point out, the bureaucracy plays a very powerful role. It will be interesting to see how and whether that role——

Mr. LEACH. Does that mean you negotiate separate agreements, separate handshakes with the bureaucrat as with the Prime Minister?

Ms. SPERO. No. We, in fact, were meeting, negotiating at our level with our counterparts who are members of the bureaucracy. It was President Clinton who met with Prime Minister Miyazawa, and, of course, Ambassador Kantor meets with his counterparts and so forth. I didn't mean they were separate agreements but that we felt we had a high-level commitment from the Japanese to pursue these negotiations.

I had a couple of things. One is, it is clear there are differences in view among the Japanese, the different parts of the Japanese bureaucracy, whether it is MITI or MAFF or the Foreign Ministry, about particular elements of the framework and about, perhaps, the level of enthusiasm with which each pursues this negotiation. We recognize that. That is why it will be a tough negotiation.

I would add an overall comment—and I don't want to be a Pollyanna—but I think one factor here is that the Japanese leadership recognizes the significance of the relationship, as you yourself pointed out, Congressman Leach, with the United States. It is not just an economic relationship. It is a political and security relationship. I think they recognize that the economic killer of that relationship is increasingly weakened, and, as we have said here, it is potentially threatening the overall strength of the relationship.

So I think they are interested in improving and strengthening that. That does not mean it will be easy to agree on details.

Another thing I would add—and Larry Summers may want to comment on that—Larry and I are both Sherpas—we participated in these preparations for the Economic Summit, and the issues of macroeconomic policy developed there as well as issues of trade policy. And it seems somewhat clear to me, at least, that Japan is clearly under pressure not just from the United States but from other countries to cease being an outlier, in terms of its economic performance. And I think the Japanese senior levels feel that pressure as well.

I think that is working in our direction. Doesn't mean it will be an easy road.

Mr. LEACH. I appreciate that. But I would only make one observation: we should never, ever with another country think that it has bifurcated sovereignty. The United States speaks with one voice. Japan must speak with one voice. And that when we make an agreement with the Government of Japan that binds bureaucracy, and they are not separate entities of a civil society. If we perceive them in the negotiating sense as such, we give them greater leverage than they are entitled to have.

Ms. SPERO. I agree with you.

Mr. LEACH. That is my only point in that regard.

The other question I have relates to the fact that there is much to be made of this bilateral relationship, and, also, we are in a significant multilateral negotiating context at GATT. The GATT rules imply the potential of great bilateral gain, and so I would like to ask what progress you reached and what understandings did you reach with the Japanese Government in terms of common negotiating strategies vis-a-vis GATT, and what commitments do they have in that regard?

Ms. BARSHEFSKY. Congressman, if I may respond, but only generally.

Ambassador Kantor was at the G–7, as you know, negotiating with the Quad countries on market access under the Uruguay round. During that time I was engaged in negotiating the framework agreement, and so I would respond to your question only in the most general terms.

Japan was somewhat forthcoming in market access negotiations, but certainly their actions fell short of what the United States would have liked to have seen, particularly in regard to certain sectors as to which both the United States and the European Community sought increased market access by way of reduced tariffs.

The European Communities' reactions and responses also fell short of what the United States would have liked to have seen and in some sectors undoubtedly Europe and/or Japan felt that the United States' actions fell somewhat short.

The market access gains achieved in the G–7 will be continued in the wider GATT process that is ongoing right now in Geneva and will be continuing through July and perhaps through August pending a reassessment sometime early in September. At the same time, in September, there will begin a process of review of the text of the draft final act in the Uruguay Round as a means of clarifying and perhaps altering provisions in that final act with which the United States is concerned.

The United States and Japan plainly have common interests in the GATT, both with respect to market access and with respect to the draft final language. The United States and Europe plainly have interests that are coincident. But each country also expects action toward trade liberalization from the other. And the United States, as the most open major industrial market in the world, has extremely high expectations when it comes to actions on the part of both Japan and the European Community in the GATT context.

Mr. LEACH. Thank you.

Thank you, Mr. Chairman.

Mr. ACKERMAN. Mr. Fingerhut.

Mr. FINGERHUT. Thank you, Mr. Chairman.

I would like to go back to the issue of the deadlines and the 6-month reviews. I know you have answered this question a few times. Maybe it is that I am new to the subject matter or maybe it is after lunch, but I am trying to get set in my mind what I would tell a constituent if they asked me about what this agreement has accomplished.

I am going to tell them we are going to negotiate for the next 6 months over these five different categories. And what do I expect we will accomplish? And if we have not accomplished it, what are we going to do?

Ms. BARSHEFSKY. As we have all indicated, the framework sets a direction and sets out certain principles, but it does not guarantee market access, and it does not address specific market access barriers.

What we intend to do is to negotiate agreements in two tranches, the first 6 months and the second 6 months, so that the framework as outlined with respect to sectoral and structural issues can be completed within 1 year. Of course, the macroeconomic undertakings are for the medium term, and those commitments will be monitored over the medium term—medium term meaning 3 to 4 years.

At the end of the first 6 months, as at the end of the second 6 months, we would be in a position to have certain agreements in place, for example, government procurement of telecommunications equipment and services or agreements on intellectual property rights and so on. Following that initial 6-month period, we will be monitoring progress toward market access under the agreements that are put into place not only at 6-month intervals but at such times and intervals in addition to the 6-month markers as recommended by our own working group negotiating teams. And we will continue to monitor progress under those agreements.

We are hopeful that progress toward genuine market access will be made. Japan, as I have indicated, has committed in the agreement that tangible progress toward market access will be achieved. But, as I have also indicated in my statement, we will not hesitate to utilize U.S. trade laws, the extent to which market access is not achieved.

But we go into these negotiations in good faith, and we, for the time being, assume the good faith on the part of the Japanese Government to adhere to the direction of the framework agreement which they have entered into with us.

Mr. FINGERHUT. Just to follow up one second and then Mr. Summers—we would expect that by the end of the first 6-month time period, which I assume started to run from the date of the agreement——

Ms. BARSHEFSKY. Yes.

Mr. FINGERHUT [continuing]. That we would have one or more agreements from among these five areas that would set specific targets so that we could then specifically begin to monitor? In other words, we would be able to start action on at least one of these areas, I would hope after 6 months, is that right?

Ms. BARSHEFSKY. We would begin to monitor at the 6-month mark. That is when the agreements are put into place. And we would take a look at progress on both a 6-month basis, as well as in the interim as necessary.

Mr. FINGERHUT. Mr. Summers, you wanted to jump in, I think.

Mr. SUMMERS. Oh, I was just going to give the simple—I don't have any constituents, but I was just going to give the simple summary that I give to my friends, which is we have a tough new agreement that puts economics at the center of a conversation between the President and the Prime Minister of Japan every 6 months; and we have the understanding that there is going to be results-based, measured agreements with measurements in the areas of procurement, automobiles and insurance within 6 months and a lot more subjects within 12; and we have an overall commit-

ment embracing all these agreements that starting right now Japan is going to be working toward a highly significant reduction in its current account surplus, which is the thing that reduces jobs.

Mr. FINGERHUT. That is your short answer? I appreciate that. Actually it does help the clarification.

One other quick question—I know we have to go vote, Mr. Chairman—on the subject of foreign investment.

When I go around my district, I am constantly shocked by how many of the companies that I visit, where the ultimate corporate parent is a foreign company. Yet I hear that the Japanese economy is very closed to the kind of foreign investment we are very open to. Is this subject broached? Does it come under any of these baskets of negotiations? And, if so, what direction is the administration heading on that subject?

Ms. SPERO. It definitely comes under one of the baskets. It is the economic integration basket that includes other issues like the buyer-supplier relationship, technology and intellectual property. And it is one that we are going to be focusing on not only because of the foreign investment itself but because studies increasingly show that foreign investment pulls trade.

So the ability of our firms to have a presence in Japan will encourage exports from the United States. So it will be included in that economic integration harmonization basket.

Mr. FINGERHUT. Do you have any sense of how to measure that particular issue?

Ms. SPERO. We have not—this is a new issue for us, and we are going to be working over in the coming months. It is not one that has the 6-month deadline.

One could imagine a variety of indicators, a level of investment, number of new projects and the like, but we have not come to any final agreement on that.

Mr. FINGERHUT. Thank you, Mr. Chairman.

Mr. ACKERMAN. Thank you.

We are going to take a break—recess for the vote that is now in progress and return to Mr. Bereuter's questions and Mr. Faleomavaega and whoever else would like to have a second round.

In the interim, I would like you to think upon the answer to the question on how a member of the Diet would respond to one of his constituents with the—to the same question and would they get the same answer.

[Recess.]

Mr. FALEOMAVAEGA [presiding]. The hearing will continue. I am just here pinch hitting for Chairman Ackerman and Mr. Gejdenson.

I would like to turn the time over now to my dear friend and colleague, Congressman Bereuter, for his questions.

Mr. BEREUTER. Thank you, Mr. Chairman. I thank you very much for your testimony. I know you are extremely well-qualified for the positions that you hold, and you certainly have the best interests and high intentions to represent our country well.

One of the few sources of continuity on trade is the Congress. I have watched now three previous administrations, Carter, Reagan and Bush, fail to defend America's economic interest with respect to Japan. We have had national security concerns that have taken dominance over our commercial and export concerns, but the cold

war is over, and the Bush administration lost that excuse in the last part of their tenure here, and it is not available to the Clinton administration.

You have a different set of negotiating factors. The Japanese can be more aggressive. The United States doesn't always have to subvert its commercial and economic trade concerns to those of national security and defense-related issues. I think that does change the shape of the arena and perhaps the rhetoric and the level of intensity with which our negotiations will be fought in the future. I wish you well in that respect.

Sometimes I think I come to these just to be reirritated. Maybe it is masochistic on my part.

Some things are certain. We do have continuity in the Tokyo University bureaucratic elite that runs things in Japan along with the business sector, and we can get promises and have received promises from the top governmental officials from Japan in the past, and they have been subverted. There are a thousand ways to do that by nontariff barriers and media and the Finance Ministry, and sometimes the Foreign Ministry is very good at doing that.

I am sorry that we have lost so many members of the media, not because I wanted to be a heavy on Japanese TV, but because we did have a few writers over there—major business writers over there for some of the major papers of the United States. I think a great many of them have been apologists for Japan. They have taken great pleasure in pointing to our macroeconomic sins in this country and to the failures of the American corporate structure and given very little attention to the kind of difficulties—tariff barriers, quotas, every other kind of trade barrier you can imagine—that have been put in our way by the Japanese.

One of them recently underwent a semi-conversion in print, I noticed, and I thought that was a step in the right direction.

I think it would be instructive if one of you would tell us about a conversation that took place in the hotel lobby in the Okura Hotel in Tokyo between, I think, a media representative and high officials of the Japanese Government. Would one of you please relate your understanding of that conversation?

Ms. BARSHEFSKY. Congressman, I, frankly, don't think it would be appropriate to comment on the conversation. I have some sense of what was said, but what was said was in Japanese.

Mr. BEREUTER. Why is it not appropriate?

Ms. BARSHEFSKY. Because I don't think that it is productive at this point to talk about the modalities of the negotiation on the framework. The framework is now in place.

Where I think we need to focus our efforts—and I agree with many of the comments you have made in your opening statement—are on maintaining a very realistic view as to what we can accomplish and within what timeframe; to not be idealistic or co-opted in our relations with the Japanese, or any other trading partner; and to keep U.S. commercial interests always at the forefront in our own thinking, which will be reflected in the way in which we negotiate what are, after all, commercial documents.

These agreements are not statements of foreign policy. They are statements of commercial policy. And we must do our best to ensure that we can achieve the maximum commercial gains for our

U.S. producers and our U.S. exporters to Japan and, of course, to the extent we are negotiating with other countries, to other markets as well.

The administration is characterized, I think, by a very bottom-line approach in our relations with Japan and elsewhere. This is a very bottom-line-oriented crowd, and I share in that orientation as do Under Secretary Summers and Under Secretary Spero.

Mr. BEREUTER. Ambassador, I have no doubt about that, but I just don't want you to go too far and have to come in here a year from now and explain why you have not been able to accomplish the things that you were promised by the Japanese Government and find that you have joined a long line of apologists or embarrassed people here.

I think your agency is outgunned dramatically. You have a lack of continuity among the people that work in the USTR. Most of them end up being so valuable they go to work for foreign corporations or as lobbyists who work for foreign corporations, and especially Japanese corporations. That, too, is part of the problem.

I think that the conversation that took place in the lobby there is widely known, at least the general contents of it. And I, frankly, find it a little encouraging that that conversation took place, despite the fact it proves my point that there is a separation between the bureaucratic elite that really makes the key decisions that undercuts the promises and treaties and negotiations that have taken place. It does mean that the bureaucracy was concerned enough in this instance for one reason or another about the promises being made that they felt they had to make their point energetically about the issue.

So, to that extent, I think you should feel somewhat encouraged that they were concerned enough to be quite agitated in raising the concern with the Japanese negotiators who you had been working with.

Mr. FALEOMAVAEGA. Knowing the members of our panel have kindly declined your question, I think it would be helpful, even for our record, that the gentleman will explain, in his best possible terms, what did take place in the conversation.

Mr. BEREUTER. We will try to put that in the record, Mr. Chairman, as best as we can determine it and as long as there is no classification about what took place—and I don't think there is.

Ms. BARSHEFSKY. Congressman, may I make a comment with respect to your observation about USTR?

Mr. BEREUTER. Be careful, but please go ahead.

Ms. BARSHEFSKY. USTR is, of course, a very small agency. It is small, but we think of it as elite. There is very little turnover in the professional staff at USTR, which is most of the staff at USTR.

In our Japan group collectively our people have spent a total of 47 years living in Japan. Many are fluent in Japanese. They have been at USTR on average between 7 and 10 years, and they are very, very expert at negotiating trade agreements as well as in understanding Japanese culture, Japanese history and Japanese Government, several having served in staff level positions in Japanese Government as well.

Mr. BEREUTER. That is good to hear. That stands in contrast to what this committee has heard about the overall tenure and revolv-

ing door situation that has affected key people at Commerce, Agriculture, State and USTR.

Mr. Chairman, I don't think I have any further questions. I will be watching with great interest to see how many things are really quantified this fall and what your progress might be. And I will wish you maximum success for the country, but you should understand that what Chairman Gejdenson said a few minutes ago is very true, that you should look on the Congress as an aid, an asset you can use for negotiation purposes.

And you won't have to orchestrate it. All you will have to do is use what the natural flow of political juices produces.

Thank you.

Mr. FALEOMAVAEGA. I want to offer my personal welcome to the distinguished members of the panel this afternoon.

I do have a couple of questions, if I may ask the members of the panel.

My good friend had raised the issue earlier as well as Chairman Gejdenson. We are probably the only country in the world that does not have a ministerial or departmental level like MITI in our Government to conduct—Ministry of Trade and Industries, for example. We don't even have that.

And the reason why we have three distinguished members from three separate and different agencies of the Federal Government—this question has been raised before, whether or not we should have a Ministry of Trade or a cabinet level ministry in that regard.

My question is—I think it was last year that we did hold a similar hearing about the economics and our relationship with Japan, and I believe the total Japanese investment in this country accounts for some well over 800,000 jobs to Americans here in our country.

I understand also at that time I think the British were the biggest foreign investors here in our country. Now I believe the Japanese have become the number one.

I wanted to know what is the total Japanese investment here in the United States and exactly how many jobs does it provide for Americans here—the United States?

And the other side of the coin. What is our total investment in the Japanese economy and how many Japanese workers are employed by the fact we have investments there as well?

We talk about imports and exports. I contend it seems that the best U.S. exports we have to Japan so far are Akebono, Konishiki and Musashi Maru.

But I just wanted to get a response from the members of the panel on this.

Mr. SUMMERS. Congressman, I can't give you those numbers off the top of my head. The estimate you made of 800,000 jobs sounds in the right ballpark to me. We will certainly provide you with that information.

[The information follows:]

Japanese direct investment was $96.7 billion (on a historical cost basis) at the end of 1992. Japanese-owned companies in the U.S. employ 566,000 Americans according to the most recent data available from the Bureau of Economic Analysis at the Commerce Department.

U.S. direct investment in Japan was $26.2 billion (on a historical cost basis) at the end of 1992. The Treasury Department is not aware of any estimates of the number of Japanese jobs that are supported by American investment in Japan.

Mr. SUMMERS. And I can tell you that the flow of foreign direct investment is highly disproportionate between the United States and Japan, with far more Japanese investment in the United States than there is American investment in Japan. That is going to be one of the issues that is going to be taken up in this economic harmonization basket that will be one component of the negotiations.

Ms. BARSHEFSKY. Congressman, if I may also respond to your comments about a U.S.-style MITI.

I think it is wise to point out that MITI is not the only agency or ministry in Japan that negotiates agreements. Many of our agreements are negotiated with the Ministry of Finance or the Ministry of Foreign Affairs, not only MITI. So that even in Japan the negotiation of agreements has been an inter-ministerial process.

Ms. SPERO. I think I would just reinforce that. That just as we have an interministerial process at our own level so they have an interministerial process, and it even goes beyond the traditional ministries to include telecommunications and agriculture and others. So in that sense there is a parallel.

Mr. FALEOMAVAEGA. I don't want to give an exposition on history, but I wanted to ask the question was it ever our intention to create the Japanese economic system to be like a clone to ours?

Of course, in the aftermath of World War II, we were there. We gave tremendous assistance to jump-start the Japanese economy. We know the differences, the similarities. They don't have the resources as we do. They tend to be very innovative in their ways. The population factors are different.

Are we making the same demands of the Japanese as we would other countries, like France, Britain, in terms of our economic relationship with those Western democracies?

Mr. Summers.

Mr. SUMMERS. I think we are making different demands because we are confronting different problems in the case of Japan. But I think we are making the same demands that we would make of any country that had the kind of trade barriers that Japan has had to foreign businesses. And we are making the same kinds of demands that we would make to any country whose surplus was so disproportionate and was so much the central asymmetry in the world system.

I think it is very important that we not get into the trap of trying to remake Japan in our own image or trying to encourage the Japanese to remake us in their own image. The countries are very profoundly different, and I think that is why the emphasis on this framework is on negotiating in those areas where American producers are competitive worldwide and in those areas where it is within the control of the Japanese Government to produce improvements by changing regulations, by changing procurement, by honoring the existing agreements.

I think that is a crucial aspect of this, because I don't think it is good business for us to try to remake each other's societies. I

think we ought to concentrate on what is in our own economic interests as we negotiate. I think a little bit of that tenor may be one of the reasons why we are hopeful this program may be more effective than SII was.

Mr. FALEOMAVAEGA. I think, to reiterate what Chairman Gejdenson said earlier and also Congressman Bereuter—and I am sure I can speak the same for the other members of the committee—the fact that we have been what the Hawaiians say, we have been blowing a lot of waha, hot air, for the past 10 years.

And with some determinative deadline are we given every assurance this administration is not going to go through another round of talk and talk and talk with some sense of—because my sense of frustration is that the Japanese have taken advantage of our good grace. And we never seem to really get on the ball and say, look, if you can't do this, we are not going to give you that.

Am I getting the signal that this administration is definitely going to take definite positions on this issue so that there is going to be equity and parity? And now are we going to work on our economic systems between Japan and this country.

Ms. SPERO. I think the answer is yes. I think the fact we have said the economic issues now take equal place along with security and political issues, and that, in fact, because of the problems and the corrosion, as we have described it, that make that part of the relationship, we are going to give it the highest immediate priority.

Secondly, the President himself has committed to this, both in his meeting with Mr. Miyazawa in April and, secondly, in the meeting in Tokyo. So it has a very powerful commitment.

And I think the point that Congressman Bereuter was making before, that in the past there is the perception at least, if not the reality, we have somehow traded our economic interest for our political and security interest, is not the message at all that we are sending now.

Ms. BARSHEFSKY. There is one additional point to add to that, which is that the timeframes set out in the framework make clear that the United States will not talk and talk and talk.

Mr. FALEOMAVAEGA. Well, that is great. I am glad to hear that.

I have a tremendous respect for the character of the Japanese people. They are very—if I can describe it—they are very meticulous. Everything has to be in order and set. And I think this is reflected in the rich and the cultural traditions that they have, which bears another question that I have in mind.

I think the year 2000 the Japanese Government—the people are already planning for it. They know exactly what goes on in objectives and they are planning on the year 2000. In the same vein, are we planning definitely for the year 2000 economically; jobs, education, a reform of our economic system? Do we have that same sense of responsibility, or am I barking up the wrong tree here?

Ms. SPERO. I would just comment I think President Clinton's program, which is looking ahead to deficit reduction, to investing in our infrastructure, including our infrastructure of people and education, is definitely a program for the year 2000. I would argue we have spent too long sort of living from year to year and not addressing our deficit problems.

And, as I think all of us have said, one of the things we find is—actually one of the strongest negotiating tools we have with the Japanese and the other G–7 countries is that we are putting our domestic house in order for the year 2000.

Mr. GEJDENSON. Mr. Summers.

Mr. SUMMERS. This administration is planning to be here to celebrate the new millennium, whether it starts January 1, 2000, or whether it starts January 1, 2001.

Mr. FALEOMAVAEGA. Ambassador, the same comment. Same question. You know, the APEC—I sense that Japan and the United States will probably be the two key players in this upcoming conference in September. Recently, I read Malaysia absolutely refuses to participate in this.

Do you sense a problem in the efforts in getting the Asian Pacific countries to participate collectively and, hopefully, that APEC will become somewhat of a competitor to EC or some other regional economic block? Do we see this as a positive thing for our country?

Ms. SPERO. Definitely. APEC is a very positive thing.

As you know, the President suggested not only there be a ministerial meeting which will take place in the United States in Seattle in November, but that that be accompanied by a possible meeting of heads of state, and he has—we are exploring that issue right now.

As a matter of fact, on Friday I am going to be heading off to Singapore for a meeting with Asian countries, including a meeting with the Malaysians. And the Malaysians and others are enthusiastic about APEC. The Malaysians have been somewhat more skeptical because, as you know, Mr. Mahathir has proposed his own idea, but he sees that East Asian group now more as a caucus within APEC as opposed to a rival to APEC.

So we are very enthusiastic about APEC. We think there is a lot of promise in that organization, and we are going to be working actively to try to make it as vital as possible.

Mr. FALEOMAVAEGA. Secretary Spero, Secretary Summers, Ambassador Barshefsky thank you very much for your appearance this afternoon. I know you have another meeting to go to.

Ms. BARSHEFSKY. Thank you, Mr. Faleomavaega.

Mr. SUMMERS. Thank you.

[Whereupon, at 3:25 p.m., the subcommittees were adjourned.]

APPENDIX

PREPARED STATEMENT OF JOAN E. SPERO, UNDER SECRETARY OF STATE FOR ECONOMIC AND AGRICULTURAL AFFAIRS

I appreciate this opportunity to testify before you today on the U.S.-Japan economic framework and to answer your questions. As we address our economic relationship with Japan, we want especially to maintain close consultations with the Congress at each step.

We are at an important point in the U.S.-Japan bilateral relationship. the President took an important step at the Tokyo summit to address imbalances and open markets through our agreement on a new economic framework as well as our joint efforts on the Uruguay round market access package. Today, I would like to address specifically the new bilateral economic framework and its larger context.

OVERVIEW

Our relationship with Japan is central to U.S. foreign policy. As the President has stated, there is no more important relationship to the United States than that with Japan.

The United States and Japan are the world's two largest trading nations, accounting for almost one-third of world GNP. Total annual trade between our two nations amounts to about $145 billion. We are Japan's largest export market. Japan is the second largest market for U.S. exports and our largest for agricultural exports. We see great potential for growth in exports to Japan as its barriers come down. Our two countries have both the potential and the responsibility to drive world growth and build a strong world trading system.

We cooperate closely with the Japanese to maintain peace and stability in East Asia and throughout the globe. We work with Japan in the important task of discouraging North Korea from pursuing a nuclear weapons program. The Japanese have also helped us encourage China to support nonproliferation and improve its human rights performance. As this year's chairman of the G–7 countries, Japanese efforts were critical to organizing G–7 support for economic and democratic reforms in Russia. Japan also strongly supports our military presence there. By 1995, the Japanese Government will pay over 70 percent of the cost of stationing U.S. forces in Japan, or about $4 billion a year. In sum, we work actively, together, to protect and promote our common aim of peace and stability in East Asia.

The United States and Japan also share fundamental interests and goals on global issues. We cooperate closely on global environmental protection, assistance to developing countries, peacekeeping operations and a broad range of other issues. It is our policy to continue and build upon this cooperation consistent with U.S. interests. The new U.S.-Japan framework, though economic in focus, also contains mechanisms for cooperation on five global issues: environmental protection, population, AIDS, technology development, and the development of human resources.

ECONOMIC FRAMEWORK

In contrast to our strategic relationship and cooperation on global issues, in recent years the large and critical economic relationship between the United States and Japan has been characterized by increasing friction which could eventually threaten our broader, overall relationship. At this point, relations are becoming increasingly corrosive due to large and unsustainable trade and investment imbalances. This administration, therefore, has made economic issues our highest immediate priority in our bilateral policy toward Japan. The framework for a new economic partnership outlines specific steps to resolve these imbalances, while emphasizing our shared re-

sponsibility to protect the multilateral trade system by promoting growth, open markets, and free trade.

The foundation of the framework is a macroeconomic "bargain," or understanding, that Japan will achieve a highly significant reduction of its current account surplus and a significant increase as well in imports, while the United States will reduce its budget deficit and promote competitiveness. This is indeed a "bargain" for both countries: it is expected to improve consumer welfare in Japan and create competitive opportunities for U.S. firms and U.S. workers.

On the microeconomic side we will negotiate with the Japanese on structural and sectoral issues in five main areas, or "baskets." These consist of (1) government procurement, (2) regulatory reform and competitiveness, (3) other major sectors, including the auto and auto parts industries, (4) economic harmonization (including such issues as foreign direct investment, intellectual property rights, access to technology, and long-term buyer-supplier relationships), and (5) implementation of existing arrangements and measures (including Structural Impediment Initiative (SII) commitments).

The framework is aimed at integrating Japan more fully into the international trading system. It is designed to encourage Japan to take on the responsibility of a major trading power to contribute to, and not just benefit from, open markets and competitive opportunities for all. Japan still maintains an unacceptably high current account surplus, which impedes world economic growth and lifestyle improvements for Japan's citizens. Japan also has a strikingly low level of manufactured imports to GNP, at 3.2 percent compared to the G–7 average (excluding Japan) of 7.3 percent. Japan also has by far the lowest level of inward direct foreign investment of the OECD countries, with .6 percent of all global foreign direct investment, compared to 44.3 percent for Europe and 24.2 percent for the United States.

Through the economic framework, the United States and Japan have chosen to address the issues in our economic relationship in a collaborative spirit. We have recognized that we must rise to the challenge together. We have the potential and the responsibility to promote global prosperity through the multilateral trade system and our framework should reinforce our efforts in the Uruguay round and other multilateral efforts.

WHAT IS NEW?

Past administrations have launched various initiatives to grapple with this issue. Let me describe the new characteristics of our framework. One of the major elements that distinguishes this administration's approach to Japan is that we ourselves are on the road to correcting our domestic problems that have affected economic imbalances. At the G–7 summit in Tokyo, I found that the Japanese place great stake in President Clinton's commitment to this administration's highest priority—economic renewal in the United States. His initiatives to reduce the Federal budget deficit and increase long-term investment add immeasurably to our credibility with the Japanese.

The administration's success on its domestic economic agenda gives us the credibility we need when we call on Japan to do its part to support the free trade system—including economic policies that stimulate Japan's domestic demand-led growth, deregulation to promote competition, and genuine market opening for foreign goods, services, and investment. We will continue to work with the Congress in developing our international economic agenda.

A second, crucial characteristic of our new policy with Japan is its results orientation. We are insisting on achieving real results from market access that can be measured by quantitative and qualitative criteria. Process changes will count for nothing unless they are accompanied by real market access opportunities. The administration will be looking at a range of criteria, or benchmarks, for every sector or structural problem. These indicators will be used to measure real progress in eliminating barriers.

Third, the agreement focuses on individual sectors of interest to U.S. industry, with specific timeframes for completing agreements. Japan has committed to reach agreements with us within 6 months in the areas of autos and parts, insurance, and government procurement. Within a year, we expect to have agreements in all other areas covered under the framework, including financial services and reform of the distribution system.

A fourth distinct element in the administration's policy with Japan is the strong political momentum provided to the negotiations by their direct link to biannual meetings between the heads of governments. Progress on sectoral and structural negotiations will be reviewed and included in the statements at these meetings. That will place additional pressure on negotiators to produce tangible results.

Fifth, this framework integrates negotiations that cover macroeconomic, structural and sectoral issues. It folds in previous commitments made under the Structural Impediments Initiative, and will track compliance with existing sectoral agreements. It also allows for continued negotiations under the Market-Oriented, Sector-Specific, or MOSS, talks where useful. All of these elements will be coordinated, not addressed in a piecemeal fashion as before.

It is important to note, however, that the framework is just that; an outline of steps to take to achieve our agreed goals. Progress will not occur automatically, we will take the next 6 months to negotiate step-by-step our agreements on procurement, insurance and autos and parts, and we don't expect these negotiations to be easy. We have learned firsthand that our Japanese colleagues are tough negotiators. We are asking the Government of Japan to take steps that are politically difficult, but we will insist that the Japanese Government implement its commitments.

We have, however, improved leverage under the framework. By gaining a Japanese commitment to specific sectors and timetables, we intend to avoid some of the quagmires of the past. Under SII we were hard-pressed to counter Japanese arguments that process changes signified adequate progress, even when market access did not improve and the macro position deteriorated. Under the framework, we will be in a strong position to demonstrate where progress is sufficient, and where it must be improved.

The unanimity of positions and purpose within our Government has been key to our efforts to obtain Japanese agreement to the framework. It will be critical to the success of our negotiations under it. In this connection, I want to stress that U.S.-Japan economic relations are an issue of strong interest in the current administration.

The President has demonstrated his personal commitment to improving the bilateral economic relationship, which we all agree is essential to ensure the health of the overall relationship. Management of our economic relations under the framework is being coordinated by the White House, reflecting the President's interest and attention and our Government's strong commitment to work as a team in this endeavor. Our goals and strategy have been worked out among the various U.S. agencies. We all back them completely. I would like to express the State Department's strong support for the framework process, and my intent to make every effort to ensure it produces the tangible results we seek. Thank you.

TESTIMONY OF LAWRENCE SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE
JOINT SUBCOMMITTEE ON ASIA AND THE PACIFIC AND
ECONOMIC POLICY, TRADE AND ENVIRONMENT
ON THE U.S.-JAPAN FRAMEWORK FOR A NEW ECONOMIC PARTNERSHIP
Wednesday, July 21 -- 1:30 p.m.

Thank you Mr. Chairman. It is a pleasure to be here today to discuss the U.S.-Japan Framework for a New Economic Partnership.

At the Tokyo Economic Summit, the big issues confronting the G-7 leaders were growth and jobs. It was not by accident that the Summit declaration was entitled "A Strengthened Commitment to Jobs and Growth." The objective of the new U.S.-Japan Economic Framework is the same -- to expand world trade and provide the increased exports to Japan that will create new, high-paying jobs for Americans.

This is a critical time for the U.S. economy. With the budget deficit on a declining trend, U.S. exports will be an important engine for economic growth. Since the mid-1980's, over half of our growth in income and almost all our growth in manufacturing jobs has resulted from export growth. During the same period, from 1986-1990, U.S. exports to Japan increased by almost 17% per year. More recently, the growth in U.S. global exports has slowed dramatically to about 6% globally, and exports to Japan have declined in nominal terms.

The Framework will provide new opportunities to sell to the world's second largest economy. It represents an important agreement on:

-- the economic objectives for a new, more balanced relationship, including a highly significant reduction in Japan's external surplus;

-- the means to achieve those goals, involving both macroeconomic policies and structural and sectoral reforms to increase market access for foreign goods, services, and investment; and

-- a process at the highest political level from beginning to end to ensure that means and objectives come together in a manner that produces meaningful, measurable results.

The Framework provides the foundation on which we will build through intensive negotiations and a new relationship with Japan that places economics at the center. It will take time, but the President is determined that we will succeed.

The Framework and U.S. International Economic Policy

The Framework is an integral element of the Administration's international economic policy and is based on the premise that America must compete, not retreat, in the world economy.

Our international economic policy, however, must begin at home by building a stronger, more competitive U.S. economy. The Administration's budget package provides for $500 billion in deficit reduction and will produce an increase in national savings and investment that is the key to our future competitiveness. The lowering of interest rates, both here and abroad, made possible by the prospect of a reduced public claim on global savings will fuel recovery and help achieve sustained non-inflationary growth.

The President's economic program has provided us with a new found credibility that is helping to advance our international agenda. Since we are making the hard choices to get our own house in order, our major economic partners no longer have the convenient excuse of our inaction on the budget deficit to avoid taking the actions we are asking of them.

Our international economic policy in general, and the Framework in particular, is best characterized as a policy of "export activism". It is directed at more trade not less. And it is directed at getting other countries to expand their imports, not reduce their exports.

The macroeconomic and market access elements of the Framework implement this export activist approach in a coordinated, comprehensive manner. The Framework addresses the two fundamental and related problems which we and others face in Japan: large and growing Japanese trade and current account surpluses, and a lack of market access for competitive foreign goods and services.

The Macroeconomic Agenda

The world economy is in its third year of slow growth and prospects are for only a modest recovery. As a result, more than 36 million are expected to be unemployed in the major industrial countries by the end of the year. The G-7 countries have agreed on a global growth strategy and are committed to taking the necessary actions to promote an economic expansion that will create substantial increases in employment. The stakes are high, but so are the potential gains. An increase in growth in the G-7 countries of only 2 percent over the next two years would mean over 8 1/2 million new jobs.

Japan is the world's second largest economy and is experiencing the slowest growth in 20 years. The causes of the Japanese recession are rooted in government policies, particularly tight monetary policies aimed at ending the speculative bubble of the late 1980's. In addition, the government has generally been following contractionary fiscal policies in the belief that such action was necessary to deal with the consequences of an aging population. The resulting erosion of consumer confidence from falling asset prices and cutbacks in investment in the face of excess capacity produced a sharp curtailment of domestic demand and a corresponding increase in the external surplus, to a forecasted $150 billion this year, or more than 3 percent of GDP.

The Japanese current account surplus is the major asymmetry in the world trading system, just as the U.S. deficit was in the 1980's. Japan's surplus drains growth from a demand starved world economy. It creates the very protectionist pressures which threaten the open trading system that has been the engine for world growth over the past 40 years.

The Japanese government has recently taken steps to spur the economy. Interest rates have been reduced progressively and substantially to their current low levels. However, the effectiveness of monetary policy to stimulate economic recovery may be undermined in countries like Japan which have experienced asset price deflation. Consequently, the recent emphasis has been on fiscal policy, which acts quickly and directly on demand. Two fiscal stimulus packages have been implemented during the past year which have been designed primarily to offset the contractionary effects of the government's initial budgets as the economy deteriorated.

The achievement of domestic demand-led growth consistent with significant reduction in Japan's external surplus will require continued fiscal action to ensure that a recovery in private demand is not offset through renewed government restraint. Some have suggested that a possible area for stimulus is through reductions in income taxes to spur private consumption.

In 1986, Japan embraced a new economic vision in the Maekawa report, one that was subsequently reaffirmed in the call to make Japan a "life style superpower." An integral element of that vision involved giving consumers a greater share of the economic pie. Since 1986, however, consumption in Japan has fallen by almost 2 percentage points as a share of national income as the tax take has increased. A reversal of that trend and restoration of the earlier share of consumption in GDP could be a possible means of increasing demand for both domestic and foreign goods.

Japan has a uniquely strong fiscal position in the G-7, which gives it considerable flexibility to pursue fiscal stimulus. Even after two stimulus packages, Japan still has a general government surplus, with the bulk of the recent deterioration due primarily to temporary cyclical factors. Moreover, the net stock of outstanding publicly held debt is still remarkably small in comparison with the rest of the G-7.

As part of the Framework agreement, Japan has committed to promote strong and sustainable domestic demand-led growth in order "to achieve over the medium term a highly significant decrease in its current account surplus". Reducing Japan's external surplus from its current level of over 3 percent of GNP to less than 2 percent would have major benefits for the world economy. It would result in 1-2 million additional jobs worldwide, including hundreds of thousands in the United States.

Market Access

Macroeconomic policies that produce strong domestic demand-led growth and a significant reduction in Japan's external surplus will not eliminate the market access problems facing foreign firms. Japan's selective engagement with the global economy persists despite successive commitments to liberalization and large fluctuations in the external surplus.

-- The market share of manufactured imports in Japan is still less than half of that in the rest of the G-7;

-- Japan still has an extraordinarily low-level of intra-industry trade; and

-- The level of foreign direct investment in the Japanese economy is a small fraction of that in the United States and Europe, which matters because trade follows investment.

These problems are the result of both specific restrictions in individual sectors and structural features of the Japanese economy which cut across all sectors. In some areas, the current problems are the legacy of past discrimination. In others, explicit government measures frustrate imports and investment. And in still others, policies of the government support or reinforce exclusionary business practices by private companies.

The financial services sector provides a good illustration of the kinds of market access problems confronting foreign firms. The Japanese financial market is the most heavily regulated and closely managed of any major industrial country. The types of products and services that can be offered are limited. The principal providers are preordained. New products and new entrants are discouraged.

Access to financial markets for outsiders, whether they be foreign or new Japanese entrants, is effectively limited. Thus:

-- Only life insurance companies and trust banks are permitted to manage the bulk of pension fund assets;

-- Securities firms are prohibited from issuing new types of commercial bonds or other instruments that might compete with the ability of banks to serve as the principal lenders to industry;

-- Only certain types of insurance companies can market specific products and efforts to liberalize seek to benefit insiders at the expense of others, including foreign insurance companies;

-- Domestic borrowers and lenders are prevented from accessing foreign capital markets through extensive foreign exchange controls;

-- Non-transparent rule making and reliance on administrative guidance has allowed the stock exchanges to propose new rules that would have a serious adverse effect on U.S. firms that have developed a highly lucrative derivatives market. This has been done without adequate consultations or appeal rights.

The end result is that U.S. firms, which are world class competitors in other markets, cannot break into the Japanese market. U.S. firms account for just 0.3 percent of Japanese bank assets. The U.S. securities firms are significant players in international underwriting, yet there has only been one yen issue by a Japanese corporation that was lead managed by a foreign firm. Our investment advisory firms manage less than 1 percent of Japanese pension fund assets.

The lack of competition is damaging to Japanese consumers, investors and borrowers. Pensioners receive very low rates of return. Insurance is costly. The small investor is at the mercy of a few firms which favor large investors. Industry is forced to borrow from commercial banks coping with financial strains and therefore unwilling to take risks.

The Treasury Department has been negotiating on financial market issues with Japan for 10 years, in both bilateral and multilateral contexts. In this effort, we have worked closely with the U.S. industry to achieve greater access for our banks, securities firms, investment advisors, insurance companies and other financial service providers. Some progress has been made. In pension funds, for example, investment advisors can now manage up to one-third of private employee pension assets, although they are still precluded from other segments of the market. We have also been successful in protecting the position of U.S. firms in the derivatives market. However, opening Japan's financial market is like peeling an onion -- progress is made one layer at a time.

We intend to pursue this effort in both the Uruguay Round negotiations and as part of the Framework. In the Uruguay Round, we are seeking binding commitments that will provide U.S. firms with increased market opportunities. Unless and until we receive satisfactory liberalization by others, we will not guarantee access to our open market on an MFN basis.

Within the Framework, we have included a basket on regulatory reform and competitiveness which will address the kind of issues which I have mentioned with regard to financial services. We will work to eliminate the restrictions that have outlived their usefulness and now stand as impediments to market access. We will be looking at financial services, including insurance, competition policy, transparency in rulemaking, and distribution under this basket. In the financial services area, our focus is currently on:

-- increasing access to Japan's trillion dollar pension fund market;

-- reducing the cost of establishing a foreign mutual fund in Japan;

-- permitting U.S. securities firms to market their expertise in new, innovative products; and

-- reducing the panoply of capital controls that limit access to the Japanese financial market.

The Framework will bring a new impetus to our efforts because it is results-oriented and has the specific deadlines of the biannual meetings between the President and Prime Minister to drive progress. We will be working to establish quantitative and qualitative indicators that will allow us to gauge the progress we are making in these areas.

Conclusion

To sum up, the Framework which we have agreed upon with the Japanese represents a new, integrated approach to our economic relationship with the Japanese. It allows us to address the two major problems which Japan presents in the world economy: the imbalance problem created by Japan's huge current account surpluses and the import penetration problems which frustrate even the most competitive foreign producers trying to enter Japan's markets. We will work to expand trade, not manage it, under the Framework. We will focus on improving market access and increasing competition in sectors where the Japanese government is already involved and try to reduce this involvement. We will concentrate on areas where foreign firms are competitive and have good prospects for success in Japan's markets. And, most importantly, we will be working for measurable results, not just promises.

Report on the United States-Japan Framework for a New Economic Partnership
Testimony to the House Committee on Foreign Affairs
Subcommittees on Economic Policy and Trade and Asia and the Pacific
Ambassador Charlene Barshefsky
July 21, 1993

I appreciate the opportunity to appear before the subcommittees today to report on the United States-Japan Framework for a New Economic Partnership. Agreement on the Framework on July 10 in Tokyo capped a week of extraordinary achievement for the President and for the global community, through the G-7 process and separate bilateral efforts.

The Framework represents an integral element of this Administration's domestic economic policy, which begins by building competitiveness at home through policies aimed at deficit reduction, new investment in education and training and infrastructure. But success in the domestic sphere needs to be complemented by efforts to expand trade and create new markets and opportunities for American products overseas. The Framework and its follow on negotiations will promote these goals.

Together with completion of the Uruguay Round and the NAFTA, a major trade policy goal of this Administration has been real progress in addressing Japan's economic imbalances. Many factors contribute to our bilateral trade deficit with Japan. Our budget deficits, low savings rates, and historic emphasis on military, rather than, civilian R&D, have in the past undermined our competitiveness with Japan. We have great admiration for what Japan has accomplished: the quality and determination of its work force, the excellence of its education system, and the products that are produced there.

But even allowing for these factors, in case after case, U.S. products and services which are highly competitive in other foreign markets meet little success in Japan. Many of our trading partners have suffered the same experience.

The U.S. and Japan are the world's largest two trading nations, accounting for more than 40 per cent of world GNP. We have the potential and the responsibility to drive world growth and maintain a vibrant world trading system. However, without a fundamental change in the nature of Japan's economic interaction with its trading partners, we face further erosion of the base of support for maintaining free trade and an open and strong multilateral trading system.

At their meeting in Washington in April, President Clinton and Prime Minister Miyazawa took steps to address the economic asymmetry that has had a corrosive effect on the relationship. They

agreed that to meet the needs of a new era, Japan and the U.S. needed to build a new partnership -- one based on mutual respect and responsibility, and on a longer term vision for the global role played by our two nations. At the center of this bilateral relationship was to be a new Framework for trade, on macroeconomic, sectoral and structural issues that would allow us to make consistent and measurable progress toward removing barriers to the Japanese market.

The Framework we sought would allow us to focus on macroeconomic, sectoral and structural issues; would enable us to begin negotiating on key issues under tight time frames and would establish meaningful indicators for assessing progress made in each area. We started from a strong position in the negotiations, because this Administration's constant emphasis on the economy has led to real efforts to attack the budget deficits and the very domestic weaknesses that Japan often cites as the main reasons for the trade imbalance between our nations. Moreover, we are pursuing this strategy at a time when our companies are increasing their international competitiveness and will be fully able to benefit from a more open Japan market.

The Framework we agreed upon meets all of our negotiating goals. It establishes, for the first time, a results-oriented trade policy. It mandates that tangible progress toward market access be achieved, and that objective criteria, both quantitative and qualitative, will be used to evaluate progress on each sectoral and structural area accomplished by the Framework. It establishes time deadlines for negotiations in individual sectors, and incorporates a review process at the highest levels. The gains sought under the agreement would be available on a most favored nation basis to Japan's other trading partners.

The Framework commits Japan to pursue a "highly significant" decrease in its current account surplus, increases in its global imports, and the U.S. to a significant reduction in our budget deficits. It also envisions cooperative efforts by the two countries to enhance foreign direct investment, access to technology, intellectual property rights, and the environment.

The Framework fully incorporates in its five "baskets" our priorities for addressing sectoral and structural barriers encountered by foreign firms seeking to sell to the Japanese market. These are:

-- Japanese Government procurement, which will include discussions aimed at significantly expanding Japanese Government procurement of competitive foreign goods and services especially in the procurement of computers, supercomputers, satellites, medical technology and telecommunications.

-- Japanese regulatory reform, which will address those Japanese government laws, regulations and guidance that

impede market access for foreign goods and services, including financial services, insurance, competition policy, transparent procedures and distribution.

-- Other major sectors, through which we will focus on barriers to the U.S. automotive industry with the objective of achieving expanded sales opportunities of foreign parts by Japanese firms as well as removing problems affecting market access and encouraging imports.

-- Economic harmonization, where we will address issues affecting foreign direct investment, intellectual property rights, technology access and buyer-supplier relationships.

-- Implementation of all prior arrangements and measures, including those commitments made in the Structural Impediments Initiative (SII).

As noted, we will use objective criteria as benchmarks to measure progress as negotiations on each of these "baskets" move forward. These will be goals or standards against which progress towards achieving full market access will be assessed; pulling together various comparative indicators as relevant in each area.
What we will be seeking in each sector are data points that will be gathered and then jointly monitored. We will utilize quantitative information where appropriate on such factors as relevant market trends, market share statistics in Japan, or comparisons between the public and private sector. We will also employ qualitative indicators where helpful, such as the nature of the business links between Japanese manufacturers and their suppliers in the United States, or changes in the business or regulatory environment favoring foreign firms. There will most likely be several such data points in each sector; no single benchmark will determine the success or failure of a sectoral agreement.

Equally important, the Framework reflects our preferences for the timing of follow up negotiations to address these "baskets" by incorporating a review by the President and Prime Minister twice yearly. These reviews will provide strong momentum for the Japanese to conclude agreements on our top priority issues; significant market access problems in government procurement, the insurance market, and automotive industries and other areas to be determined, by the first Heads of Government meeting in 1994, or within six months. Agreements on measures in the remaining areas will be sought by the second such meeting in July 1994.

In addition, both government have committed to hold Subcabinet meetings prior to the Heads of Government meetings.

This Framework firmly places the economic pillar of the U.S. - Japan bilateral relationship at center stage for the first time; recognizing that addressing our economic imbalances requires urgent attention. The Heads of Government consultations incorporated into

the agreement will serve to keep it there. It is a sophisticated approach that recognizes the interrelationship between macroeconomic, structural and sectoral polices. By integrating this broad range of policy objectives, it helps ensure that we do not pursue one set of objectives at the expense of another.

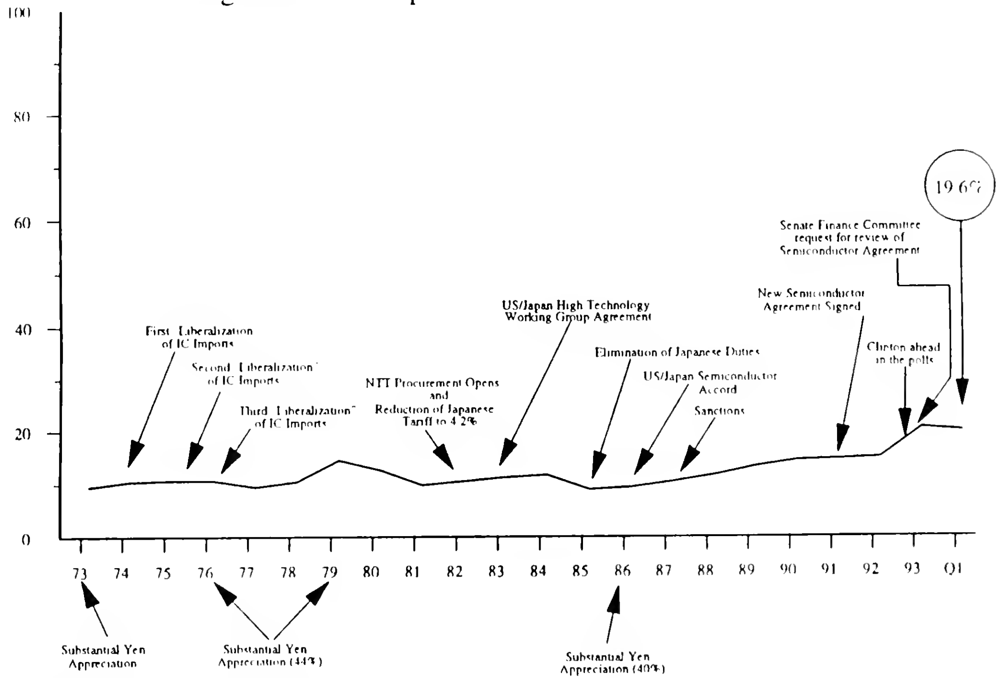
At the same time, this agreement meets the Administration's goal of trade expansion. It is in no way a "managed trade" or protectionist approach to our economic imbalances with Japan. On the contrary, by seeking to unlock Japan's government procurement and other restrictive policies and regulations, we seek to make the Japanese market more amenable to market discipline than it is now. The focus is on areas where the Japanese Government has either a direct or indirect role in the dynamic of a particular sector or structural problem; sectors where the Japanese Government is in fact managing inbound trade, and where our companies are poised to compete. This specifically includes the automotive sector, where we perceive the role of Japanese Government guidance to be significant.

The Framework represents a basis for future negotiations. It is far from a complete solution to the trade problems that have hampered our relationship with Japan. It is a firm beginning to a larger process, and successfully establishes the direction in which we wish to proceed in order to place this crucial economic relationship on a satisfactory and equitable footing. Hard bargaining on important issues remains, including the enforcement of agreements already in effect. We intend to make tangible progress, and recognize it will not be easy. We are committed to the utmost efforts to obtaining measurable results under this Framework, but if the consultations and negotiations under the Framework do not make the requisite progress, we will not hesitate to use other approaches, including those that Congress has provided in the trade law. These prerogatives have been fully safeguarded in the agreement. However, our strongest tool in building on the solid foundation offered by the Framework is in the continuing commitment of this Administration, at the highest levels, and the Congress, to seeking real, measurable improvements in our economic relationship with Japan.

U.S. Trade with Japan, 1982-1992
($ billions)

YEAR	EXPORTS	IMPORTS	BALANCES
1982	$20.7	$37.7	-$17.1
1983	21.6	41.2	-19.6
1984	23.2	57.1	-34.0
1985	22.2	68.8	-46.6
1986	26.6	81.9	-55.3
1987	27.8	84.6	-56.8
1988	37.4	89.8	-52.4
1989	44.5	93.5	-49.0
1990	48.6	89.7	-41.1
1991	48.1	91.6	-43.4
1992	47.7	96.5	-48.7

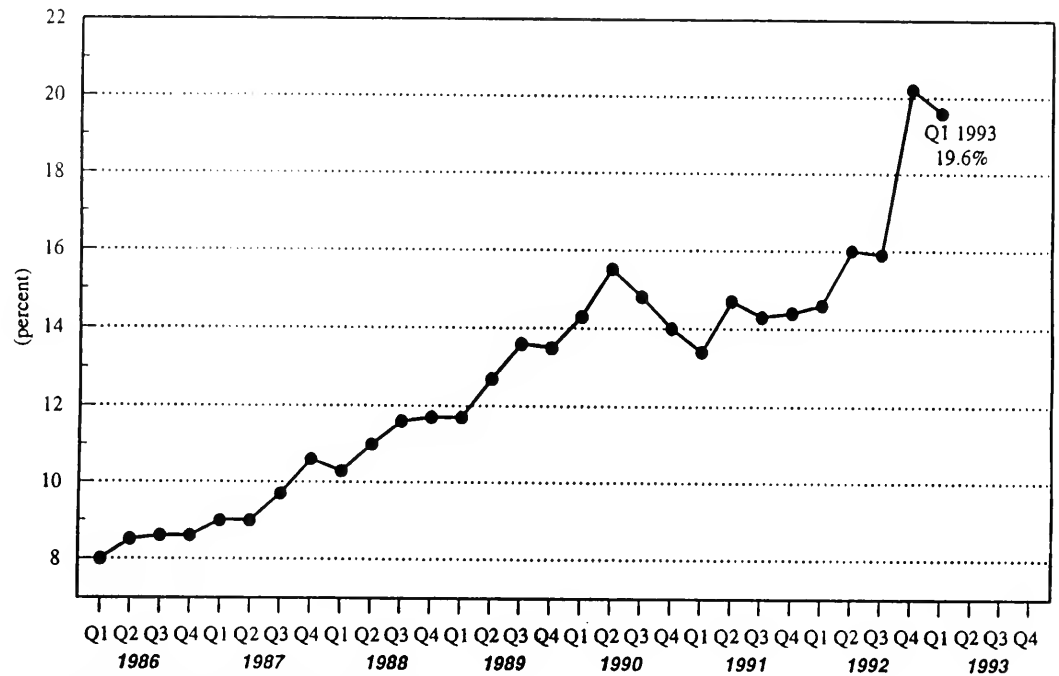
JAPANESE MARKET
Foreign Share of Japanese Semiconductor Market



Source: Semiconductor Industry Association, 1993

Chart 1

Foreign Share in Japan

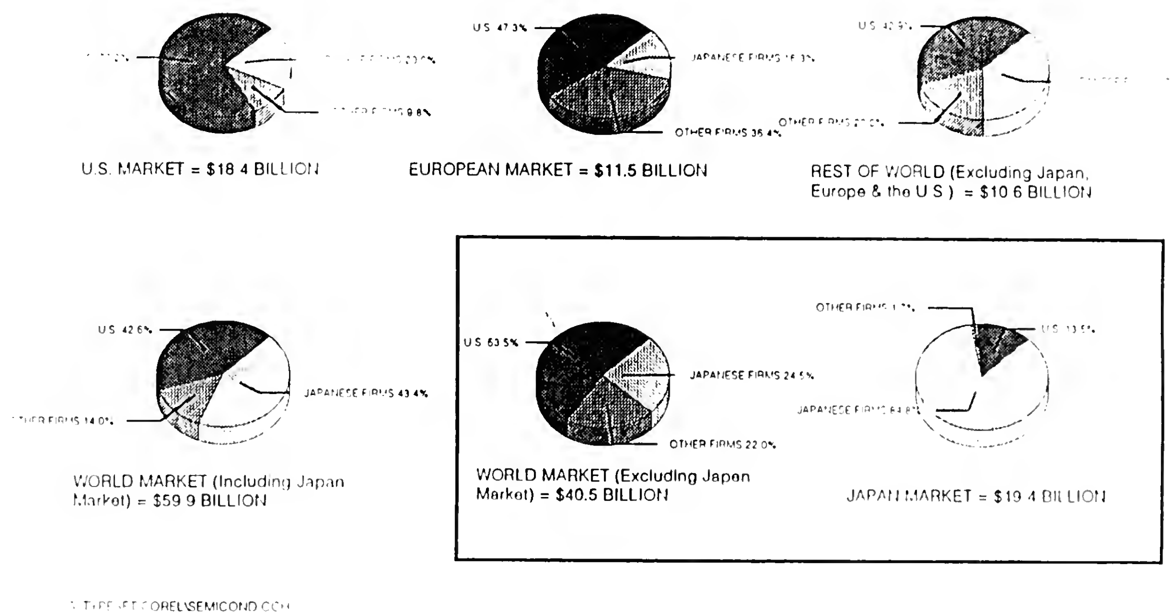


Source: 1986-Q2 1991: SIA estimates consistent
Q3 1991 to present: U.S.T.R.

(-share drw(sls1)

Chart 2

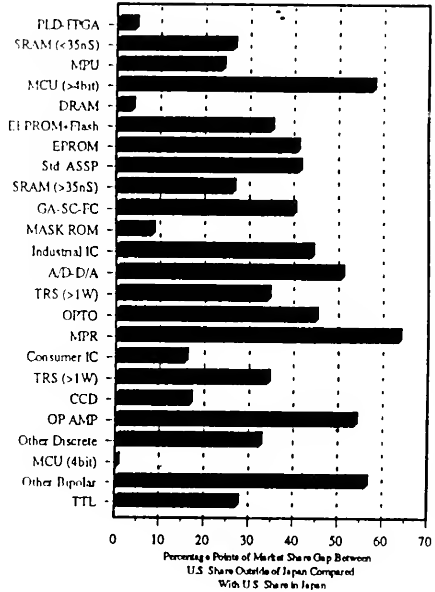
U.S. OUTCOMPETES JAPAN IN EVERY OPEN MARKET



SIA 1992

Chart 3

As Japanese Demand in Individual Products Grows Over the Next Three Years, U.S. and Other Foreign Producers Should Have Many Opportunities to Increase Their Sales to Japanese Users.



Product Growth Rate for 1992-1995

PLD-FPGA	17%
SRAM (<35nS)	15%
MPU	13%
MCU (>4bit)	12%
DRAM	11%
EEPROM+Flash	11%
EPROM	11%
Std. ASSP	11%
SRAM (>35nS)	10%
GA-SC-FC	10%
MASK ROM	10%
Industrial IC	9%
A/D-D/A	7%
TRS (>1W)	7%
OPTO	7%
MPR	6%
Consumer IC	6%
TRS (<1W)	6%
CCD	5%
OP AMP	4%
Other Discrete	4%
MCU (4bit)	4%
Other Bipolar	(4%)
TTL	(12%)

Chart 4

EMBASSY OF JAPAN
WASHINGTON, D. C.

July 12, 1993

Dear Ambassador Kantor:

With regard to the joint statement of July 10, 1993 by Prime Minister Miyazawa and President Clinton on the establishment of the Japan-United States Framework for a New Economic Partnership, I wish to state the following Government of Japan position with respect to certain limited U.S. Government trade actions, such as Section 301 of the Trade Act of 1974, as amended.

The Government of Japan will utilize this Framework as a principal means of addressing bilateral trade and economic issues. The Government of Japan reserves the right, however, to withdraw from any particular structural or sectoral issue which, following consultations under this Framework, remains subject to dispute, in the event formal procedures under the above-referenced actions are initiated. The Government of Japan also reserves the right to suspend or nullify measures taken with respect to the issue under dispute in the event that action by the U.S. Government is taken with respect to that issue to restrict access of Japanese firms to the U.S. market.

Sincerely,

Takakazu Kuriyama
Ambassador of Japan

The Honorable Mickey Kantor
United States Trade Representative
Office of the United States Trade Representative
Washington, D.C. 20506

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

JUL 12 1993

His Excellency Takakazu Kuriyama
Ambassador of Japan
2520 Massachusetts Avenue, N.W.
Washington, D.C. 20008

Dear Mr. Ambassador:

I acknowledge receipt of your letter of today's date with regard to the joint statement of July 10, 1993 by President Clinton and Prime Minister Miyazawa on the establishment of the United States-Japan Framework for a New Economic Partnership. I wish to state that the U.S. Government will utilize this Framework as a principal means for addressing bilateral trade and economic issues. The U.S. Government reserves all rights, however, with respect to the application of all national laws, including all statutes, regulations, and rules pertaining to international trade.

Sincerely,

Michael Kantor

JOINT STATEMENT ON THE UNITED STATES-JAPAN FRAMEWORK FOR A NEW ECONOMIC PARTNERSHIP

Reaffirming their understanding at their meeting of April 1993, the Prime Minister of Japan and the President of the United States agree to establish the United States-Japan Framework for a New Economic Partnership, as described below.

Basic Objectives

The Framework will serve as a new mechanism of consultations for United States-Japan economic relations. This new economic relationship must be balanced and mutually beneficial, and firmly rooted in the shared interest and responsibility of the United States and Japan to promote global growth, open markets, and a vital world trading system. These consultations will take place under the basic principle of two-way dialogue.

The Framework provides a structure for an ongoing set of consultations anchored in biannual meetings of the Heads of Government. The goals of this Framework are to deal with structural and sectoral issues in order substantially to increase access and sales of competitive foreign goods and services through market-opening and macroeconomic measures; to increase investment; to promote international competitiveness; and to enhance bilateral economic cooperation between the United States and Japan.

Japan will actively pursue the medium-term objectives of promoting strong and sustainable domestic demand-led growth and increasing the market access of competitive foreign goods and services, intended to achieve over the medium term a highly significant decrease in its current account surplus, and at promoting a significant increase in global imports of goods and services, including from the United States. In this context, Japan will take measures including fiscal and monetary measures as necessary to realize these objectives.

The United States will also actively pursue the medium-term objectives of substantially reducing its fiscal deficit, promoting domestic saving, and strengthening its international competitiveness.

Steady implementation of these efforts on both sides is expected to contribute to a significant reduction in both countries' external imbalances:

The United States and Japan are committed to an open multilateral trading system that benefits all nations. Benefits under this Framework will be on a Most Favored Nation basis.

Consultations will be limited to matters within the scope and responsibility of government.

The two Governments are committed to implement faithfully and expeditiously all agreed-upon measures taken pursuant to this Framework. Both Governments agree that tangible progress must be achieved under this Framework.

The two Governments will utilize this Framework as a principal means for addressing the sectoral and structural areas covered within it. If issues within these areas arise, both sides will make utmost efforts expeditiously to resolve differences through consultations under the Framework or, where appropriate, under applicable multilateral agreements.

Sectoral and Structural Consultations and Negotiations

Japan and the United States will engage in negotiations or consultations to expand international trade and investment flows and to remove sectoral and structural impediments that affect them. Initial areas include the following issues of interest to both countries:

- Government Procurement - Measures undertaken in this area should aim at significantly expanding Japanese government procurement of competitive foreign goods and services, especially computers, supercomputers, satellites, medical technology, and telecommunications. The U.S. Government will encourage U.S. firms to take

advantage of opportunities created by the Government of Japan. The U.S. Government reconfirms that it is the policy of the U.S. Government to provide non-discriminatory, transparent, fair and open opportunities consistent with its obligations under the GATT Agreement on Government Procurement. The U.S. Government will consult with the Government of Japan upon request concerning such policies, and areas of particular interest.

- Regulatory Reform and Competitiveness - Measures undertaken in this area will address reform of relevant government laws, regulations, and guidance which have the effect of substantially impeding market access for competitive foreign goods and services, including financial services, insurance, competition policy, transparent procedures, and distribution. The United States will undertake efforts to promote exports to Japan, including business facilitation measures and other measures to further enhance U.S. international competitiveness.

- Other Major Sectors - Measures undertaken in this area will address other major sectors, including the automotive industries. Efforts in this area, including existing arrangements, such as MOSS, will have the

objective, inter alia of achieving significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants, as well as removing problems which affect market access, and encouraging imports of foreign autos and auto parts in Japan. The U.S. Government will promote the export of autos and auto parts to Japan and will encourage U.S. companies to pursue more actively market opportunities in Japan.

- o Economic Harmonization - This area will address issues affecting foreign direct investment in Japan and the United States. In addition, this area encompasses issues such as intellectual property rights, access to technology, and long term buyer-supplier relationships between companies in the two countries.

- o Implementation of Existing Arrangements and Measures - All existing bilateral arrangements and measures will be closely monitored and fully implemented. Specific commitments made under the Structural Impediments Initiative (SII) talks will be absorbed into this basket as appropriate.

Discussions in the above areas will begin as soon as

possible. Each basket will be chaired at the Subcabinet level with working groups as appropriate. The two governments will make utmost efforts to agree on measures regarding significant market access problems in government procurement, the insurance market, the automotive industries, and other high priority areas to be determined, at the first Heads of Government meeting in 1994 or within six months of this agreement. Each such issue will be dealt with separately. Agreements on measures in the remaining areas are expected to be announced at the second Heads of Government meeting in July 1994.

Common Agenda for Cooperation in Global Perspective

The two Governments will also jointly pursue positive cooperation in a wide range of global areas and bilateral projects of potentially global application. In doing so, Japan and the United States will build new cooperative relations and thereby contribute to the development of technology and the world economy. The two Governments will pursue a new joint response to the challenge in environment and other common economic issues of global implication. Through this joint collaboration, the two nations will establish a constructive global partnership.

Progress on results arising out of such consultations will be included in the joint statements at the biannual meetings of the Heads of Government. Progress reports will be prepared by

the Subcabinet group at the pre-Heads of Government meetings.

Discussions will begin as early as possible in the following areas:

1. Environment. The United States and Japan will establish a forum for regular consultations on environmental issues at the sub-Cabinet level. The U.S. and Japan will collaborate on the following specific environmental priorities: oceans, forests, global observation information network, environmental and energy efficient technologies, conservation of important natural and cultural resources, and environment-related development assistance.

2. Technology. Japan and the United States agree to cooperate on mutually-agreed projects in the following areas of technology development: transport technology, telecommunications, civil industrial technology, and road technology and prevention of disaster.

3. Development of Human Resources. The United States and Japan agree to strengthen bilateral cooperation in the development of human resources in the areas of labor exchanges and the Manufacturing Technology Fellowship Program.

4. Population. The United States and Japan will work together to enhance the effectiveness of efforts to stem rapid global population growth, including strengthening multilateral population programs. The U.S. and Japan will work together to use our bilateral programs to enhance the effectiveness of population programs in the developing world.

5. AIDS. The United States and Japan will cooperate to enhance multilateral efforts on AIDS. The United States and Japan will work together to use our bilateral programs to address the AIDS crisis in the developing world.

High-Level Consultations

Both Governments will seek as expeditiously as possible to begin consultations under this Framework, with achievements to be announced at the Heads of Government meetings to be held twice a year.

The two Governments will assess the implementation of measures and policies taken in each sectoral and structural area within each basket under this Framework; this assessment will be based upon sets of objective criteria, either qualitative or quantitative or both as appropriate, which will be established using relevant information and/or data that both Governments will

evaluate. Such assessment will occur at the biannual Deputies meeting prior to the Heads of Government meetings and, in addition, as determined by the negotiating teams within each basket. These criteria are to be used for the purpose of evaluating progress achieved in each sectoral and structural area, including the collaborative efforts of the two Governments.

At their biannual meetings, the Heads of Governments will issue public statements that include reports of results achieved under the Framework on sectoral, structural and macroeconomic issues, as well as a common agenda for cooperation in global perspective.

Deputy Minister level meetings will be held twice a year to prepare reports to be submitted to the two leaders. Meetings can be held as appropriate several weeks before biannual Heads of Government meetings. The first Deputy Minister level meeting will be held within six months of agreement on this Framework.

Consultations will be carried out making use of the existing fora where appropriate, and working groups may be established as necessary in order to facilitate dialogue in this Framework. All relevant agencies will participate.

After two years, both Governments will decide whether to extend consultations in this Framework beyond the fall of 1995.

An update on progress toward reducing current account imbalances and other macroeconomic issues will be included in the biannual Heads of Government statements. Progress will also be reviewed at the pre-Heads of Government meetings. While ongoing talks will be anchored in the G-7 process and central bank dialogue, other contacts between the two Governments will offer the opportunity to discuss these concerns, for example during discussions between the Council of Economic Advisors and the Economic Planning Agency.

STATEMENT OF

GEORGE M. SCALISE,

SR. VICE PRESIDENT & CHIEF ADMINISTRATIVE OFFICER,
NATIONAL SEMICONDUCTOR, AND
CHAIRMAN, PUBLIC POLICY COMMITTEE,
SEMICONDUCTOR INDUSTRY ASSOCIATION (SIA)

ON BEHALF OF

THE SEMICONDUCTOR INDUSTRY ASSOCIATION

BEFORE THE

ASIAN AND PACIFIC AFFAIRS AND
ECONOMIC POLICY, TRADE AND THE ENVIRONMENT SUBCOMMITTEES

OF THE
COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

JULY 21, 1993

SUMMARY OF SIA TESTIMONY

- The foundation of a solid, long-term, amicable relationship between the United States and Japan is predicated on the two countries having a strong economic and commercial relationship. Japan's current trade surplus with the United States as well as the many trade obstacles U.S. firms face in Japan must be addressed before a long-lasting relationship can be realized.

- The U.S.-Japan Semiconductor Agreement is a results-oriented trade agreement, supported by both the U.S. government and U.S. semiconductor industry, which addresses one sectoral problem the United States faces in Japan.

- The Agreement's approach of setting a 20 percent foreign share benchmark for the Japanese semiconductor market was necessary because past negotiations with the Japanese had not secured the necessary result of gaining access to the Japanese semiconductor market. The U.S. and Japanese governments and industries had been negotiating since the early 1970s to open the Japanese semiconductor market.

- Access to the Japanese market is critical to the success of the U.S. semiconductor industry. The Japanese semiconductor market is the world's largest and without full access to this critical market, U.S. competitiveness suffers. Each one percent increase in foreign share equals $200 million in sales.

- U.S. companies can compete in Japan if given the opportunity. American companies outsell Japanese companies by a two-to-one margin in all markets outside Japan.

- Without the 1986 and 1991 Semiconductor Agreements, the U.S. semiconductor industry would not have regained worldwide market share and achieved parity with the Japanese in 1992. Increased access to the Japanese market translates into increased investment in the United States by U.S. semiconductor companies and more U.S. high-wage, high-skilled jobs.

- The results-oriented approach to restricted access to the Japanese semiconductor market worked because the U.S. semiconductor industry took steps to boost its own competitiveness, support of the Agreement by the U.S. government -- both by Congress and the Executive Branch, and the U.S. industry's extensive investment of resources in serving the Japanese market.

- Further efforts to ensure that progress under the Agreement continues are necessary. Although the foreign share of the Japanese semiconductor market reached 20.2 percent in the fourth quarter of 1992, share declined in the first quarter of 1993 to 19.6 percent and early indications of market data show that foreign share dropped in the second quarter as well. The Congress and the Administration must ensure that steady progress toward market access is continued. As Ambassador Kantor has stated, the United States government expects foreign share of Japan's semiconductor

market to be at least a 20 percent average for 1993. The Agreement calls for steady improvement in market share until the Agreement expires in 1996.

- The U.S. electronics industry is the nations largest employer -- employing 2.3 million Americans. The semiconductor industry is basic to the success of this sector. Your continued interest is vital to our continuing to gain access to the Japanese market, so that our performance can be commensurate with our competitiveness.

INTRODUCTION

The Semiconductor Industry Association (SIA) is pleased to have the opportunity to submit written testimony to these two subcommittees about an issue which is SIA's top public policy priority -- access to the Japanese semiconductor market and the U.S.-Japan Semiconductor Agreement. My name is George M. Scalise. I am the Senior Vice President and Chief Administrative Officer of National Semiconductor and Chairman of the SIA's Public Policy Committee.

The SIA is comprised of U.S.-based semiconductor manufacturers. Its member companies account for 85 percent of U.S. semiconductor production and employ over 240,000 Americans. A list of member companies is attached. The SIA was created in 1977 to address the public policy issues confronting the industry. SIA concentrates its energies on those issues which affect the ability of the industry to remain internationally competitive.

Members of the SIA have been actively involved in gaining access to the Japanese semiconductor market since the association's founding. The Japanese government and industry actively pursued policies which restricted access to Japan's market and promoted the development of Japan's domestic semiconductor industry. These actions, combined with Japanese dumping of semiconductors in the U.S. market in the 1980s, resulted in the near destruction of the U.S. memory chip industry. The U.S. industry and government, after years of negotiations with the Japanese on semiconductor trade (see chart 1), sought to address the access problem in Japan in a way more likely to lead to actual results.

The 1986 U.S.-Japan Semiconductor Agreement included a side-letter in which the Japanese committed to provide market access and a 20 percent foreign share benchmark to be achieved by July, 1991. The 20 percent benchmark was chosen because its achievement was a clear indication that access to the Japanese market was no longer restricted. Had the market been open, foreign share would have been in excess of one-third. It became obvious in 1990 that this goal would not be reached so the U.S. and Japan concluded a second Semiconductor Agreement in 1991. The Agreement extends the original commitment of 20 percent to the end of 1992, with gradual and steady progress in market share continuing thereafter. A historical view of the facts highlights why the use of quantitative indicators of progress along with other factors have been essential to encouraging market forces in Japan's semiconductor market.

BACKGROUND

The 1986 and 1991 Semiconductor Agreements were a response to Japanese targeting of the semiconductor industry, barriers to the Japanese market, dumping in the U.S. and third-country markets, and the failure of previous attempts to produce concrete results.

Formal Protection of the Japanese Market:

Before the 1970s, the Japanese semiconductor market was protected by a wide range of formal and informal barriers. Imports were restricted by licensing requirements and quotas. Japan precluded foreign investment by placing semiconductors on the "negative list" -- foreign majority ownership in such industries was not permitted without prior government approval, which was almost never granted. The Japanese Ministry of International Trade and Industry (MITI) required the Japan Electronic Computer Company, a government-subsidized computer leasing company that served as a leading source of Japanese computer demand, to accept only computers that satisfied a local content requirement, which was progressively tightened from 80 to 95 percent. MITI also informally pressured semiconductor users to use Japanese-made devices. During this period, with extensive government support, Japanese semiconductor producers became internationally competitive and began challenging the U.S. industry in world markets.

Japan's Liberalization Countermeasures:

In 1971, the Nixon Administration mounted a major effort to persuade Japan to liberalize imports of computers and computer parts. Japan initially resisted U.S. pressure, but eventually agreed to liberalization after the U.S. threatened to lodge a complaint under the General Agreement on Tariffs and Trade (GATT). Japan pledged to liberalize semiconductor imports and foreign investment in a series of negotiations between 1971 and 1975.

At the same time that Japan agreed to eliminate its formal restrictions, however, the Japanese government also developed a series of "liberalization countermeasures" to offset the effects of liberalization. These countermeasures included MITI subsidies to encourage product specialization among the producers, government sponsorship of joint R&D projects, continued administrative guidance to buy Japanese, the creation of horizontal links between Japanese producers, and encouragement of tight relationships between Japanese producers and consumers of semiconductors.

As a result of these steps, the U.S. share of the Japanese market in the post-liberalization period remained virtually the same as the U.S. share during the period of formal protection, generally around 10 percent. In specific product areas, U.S. companies encountered a recurring phenomenon: U.S. firms could achieve sales in Japan with a given device as long as sufficient quantities of a competing Japanese product were not available. As soon as Japanese firms could supply the product, U.S. firms' sales fell dramatically, sometimes to zero. Given the buy-Japan policies and the increasing ability of Japanese companies to replicate foreign chips, the U.S. share began declining in 1980 and, in 1982, was lower than the U.S. share in 1974, the last year the market was protected by quotas.

High Technology Working Group:

By the beginning of the 1980s, the market access problems U.S. semiconductor firms encountered in Japan and the alleged dumping of Japanese devices made semiconductors a subject of significant bilateral trade friction. In 1982, the U.S. and Japanese governments established an informal working group to address conflicts in high technology products called the "U.S. - Japan Work Group on High Technology Industries." In a set of recommendations approved by the cabinets of both governments, Japan agreed to eliminate barriers to market access in high technology products and, in 1983, MITI said that it would encourage Japanese companies to increase their purchases of U.S. semiconductors.

In retrospect, this agreement served little purpose other than to dissipate U.S. pressure on Japan to open its semiconductor market. Increased U.S. penetration of the Japanese market lasted only as long as the world-wide boom in demand for semiconductors. In late 1984, as semiconductor demand started to decline, U.S. companies immediately saw orders cut back and a loss in market share. U.S. companies reported that Japanese firms showed little or no interest in forming long-term relationships and foreign sales were not increasing. By mid-1985, the U.S. share of the Japanese semiconductor market was actually lower than it had been when the recommendations were adopted at the end of 1983.

The 1986 and 1991 U.S.-Japan Semiconductor Agreements:

In 1985, in reaction to Japan's violation of its 1983 commitments, SIA filed a petition against Japanese semiconductor producers pursuant to section 301 of the Trade Act of 1974.1/ At about the same time, Micron Technology filed an antidumping case in reaction to dumped Japanese 64K DRAMs, Advanced Micro Devices, Intel, and National semiconductor filed an antidumping case in reaction to dumped Japanese EPROMs, and the Department of Commerce self-initiated an antidumping case in reaction to dumped 256K and above DRAMs. The massive dumping that occurred in 1985 and 1986 was substantially attributable to Japanese government targeting and the closed Japanese market. Japan's closed market gave its firms a sanctuary and reduced the uncertainty associated with investing in new manufacturing capacity.

At the same time that these cases were pending, the United States and Japan entered into long and arduous negotiations designed to reach an overall agreement on semiconductors. The U.S. government was proceeding toward a section 301 determination against the Japanese government, but suspended the proceeding when the 1986 U.S. - Japan Semiconductor Agreement was signed. Under the 1986 Agreement, Japanese semiconductor producers agreed not to dump in any world market. The Japanese producers entered into

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1/Petition of the Semiconductor Industry Association, Investigation of Semiconductors under Section 301 of the Trade Act of 1974 before the Section 301 Committee of the Office of the U.S. Trade Representative (filed June 14, 1985).

antidumping suspension agreements with the United States government for DRAMs and EPROMs and established a fair market value (FMV) system to ensure that Japanese exports were above costs. Because of U.S. frustration over the failure of prior agreements to produce market opening results, U.S. negotiators pressed for a more explicit market access commitment, which led to a side letter exchanged concurrently with the text of the main Agreement. In the letter, Japan committed itself to providing market access and agreed to a measure by which to judge progress:

> The Government of Japan recognizes the U.S. semiconductor industry's expectation that semiconductor sales in Japan of foreign capital-affiliated companies will grow to at least slightly above 20 percent of the Japanese market in five years. The Government of Japan considers that this can be realized and welcomes its realization.

Despite the commitment, foreign market share in Japan remained stagnant in the months after conclusion of the 1986 Agreement. Although Japanese firms solicited more information from U.S. firms about their products, there was little evidence of Japanese interest in new supply relationships. Coupled with clear evidence of Japanese noncompliance with the antidumping provisions of the 1986 Agreement, the failure of the market access accords provided the basis for the formal imposition of sanctions by the U.S. government against Japanese electronics products for breaches of the 1986 Agreement. On April 17, 1987, President Ronald Reagan announced the sanctions.2/

U.S. retaliatory action, along with the prospect that Japan might be designated as a "priority" country pursuant to the Super 301 provisions of the Omnibus Trade and Competitiveness Act of 1988, appeared to bring about a major change in attitude within Japan. The U.S. share of the Japanese semiconductor market rose from 8.6 percent during the first quarter of 1987 to 12.2 percent during the first quarter of 1990.

By 1990, however, it was evident that the target foreign market share of 20 percent would not be reached by the time the 1986 Agreement expired on July 31, 1991. Foreign market share was only 13.0 percent by the first quarter of 1990, and the growth in U.S. market share was leveling off (see chart 2). Nevertheless, the 1986 Agreement had led to increased foreign market share and greater efforts by the Japanese to increase foreign sales and the design-in of foreign products. Consequently, SIA preferred the negotiation of a new agreement that would build on the existing momentum toward a more open Japanese market to the alternative of new sanctions. Accordingly, SIA and the Computer Systems

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2/Presidential Determination Under Section 301 of the Trade Act of 1974, 52 Fed. Reg. 13,419 (Apr. 22, 1987).

Policy Project (CSPP)3/ jointly proposed that the President negotiate a new semiconductor agreement maintaining the emphasis on market access for U.S. semiconductors. The United States and Japan reached a new accord in which the government of Japan reaffirmed, this time publicly, in the body of the Agreement, its recognition of the expectation that foreign market share in Japan should reach at least 20 percent by the end of 1992. While the 1991 Agreement extended the market access provisions of the 1986 Agreement for five years, it set a 17 month period for reaching or exceeding the 20 percent objective, with steady progress to follow. While the Agreement's duration is five years, both governments will review and jointly decide after three years whether to terminate the Agreement before July 31, 1996.

Following early indications that the Japanese would not reach the 20 percent benchmark at the end of 1992, Congressional and Administration attention focused on the issue of compliance. Foreign share of the Japanese semiconductor market then reached 20.2 percent in the fourth quarter of 1992. The interim goal of the Agreement was therefore achieved.

However, foreign market share dropped in the first quarter of 1993 to 19.6 percent and early data indicates a further slip in market share during the second quarter of 1993. Nevertheless, the achievement of the interim goal demonstrates that foreign suppliers can supply the Japanese semiconductor market. Extraordinary efforts by both Japanese buyers and U.S. sellers have proved that with mutual efforts, and with intensive participation by governments to foster this process, success is possible. Foreign share of Japan's market can not only achieve a 20 percent benchmark level, but can continue to grow.

FURTHER PROGRESS IS NECESSARY

The question now is how further progress can be made. The 1991 Agreement specifies that there should be a "gradual and steady" increase in the foreign share of the Japanese semiconductor market beyond 20 percent -- until the Agreement expires on July 31, 1996. In effect, the 20 percent target in the Agreement is a milestone toward the ultimate objective of a larger share in Japan based on the competitive merits of foreign products. In part because the U.S. share of all semiconductor markets in which the U.S. and Japan compete, outside of the Japanese market, is nearly twice the share of Japanese producers -- 53.5 percent U.S. to 24.5 percent Japanese -- the 20 percent benchmark

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3/The CSPP, an affiliation of the chief executive officers of 12 U.S. computer companies, is designed to develop and advocate industry positions on trade and technology policy issues. CSPP's members are the CEOs of Apple, AT&T, Compaq, Control Data, Cray Research, Data General, Digital, Hewlett-Packard, IBM, Sun Microsystems, Tandem, and Unisys.

contained in the Agreement is rightly viewed as a reasonable threshold for obtaining full access to the Japanese market (see chart 3).

On March 19, 1993, Ambassador Michael Kantor stated that "gradual and steady growth means at least . . . an average of 20 percent foreign market share penetration of the semiconductor market in Japan over the next four quarters." Given that the average foreign share during 1992 was only 16.7 percent, the U.S. Government must make the Agreement a top priority of U.S. trade policy in order to ensure that the average foreign share during 1993 is at least 20 percent on average, and that foreign access continues to grow.

A gradual and steady increase in foreign market share beyond 20 percent will not occur without substantial additional purchasing efforts by Japanese consumers. Although the increased market share in Japan in 1992 is a significant accomplishment, this does not imply satisfaction that full access to the Japanese market has been achieved. It has not. Despite the progress made to date, a substantial gap remains. Semiconductor producers have a higher market share outside of Japan than they have in Japan for each and every type of semiconductor product. The "gap analysis" presented in the attached chart (see chart 4) demonstrates that further progress in obtaining greater market access in Japan is possible to a small degree for some products and to a very large degree for most others. The gap analysis is presented not as a political statement or as an indictment of Japan, but as an indicator that progress toward greater market access can be made across a broad spectrum of products. Foreign producers can and should satisfy more of Japan's semiconductor demand.

To make further progress in increasing foreign market share, foreign products must be accepted to a greater degree in Japan. Foreign semiconductors must be designed into the heart of Japanese electronic systems in more cases. Such "big ticket" design wins lead to interdependence of suppliers and customers. Mutual dependence is the natural result of an open international trading system and it is the necessary goal of an open international trade policy.

As continued progress in market access is achieved, the two industries have been moving from confrontation to cooperation. The two industries can increasingly engage in joint efforts to work together on activities that result in creating new applications for semiconductors and new markets so that both industries will benefit simultaneously. Cooperation on environmental issues would also be beneficial.

Semiconductors have been a bellwether in U.S.-Japan relations. Further success in this sector would indicate that broader success is possible in the world's most important -- and troubled -- trading relationship.

WHY THE SEMICONDUCTOR AGREEMENT WORKS

The 20 percent market share benchmark in 1992 was achieved for a number of reasons. U.S. government support for the Agreements, U.S. semiconductor industry efforts to increase their competitiveness, and the industry's continued investment to serving the Japanese market were all critical elements for achieving the 20 percent figure.

First, strong U.S. government support for the Agreement and a willingness to take action have been indispensable. One example is the trade sanctions imposed by the Reagan Administration in 1987 because little progress was being made in opening Japan's market. Once sanctions were imposed, Japan realized that the U.S. government was committed to seeing the accord enforced. As a consequence, efforts by chip users in Japan increased significantly. Congressional interest has also been vital. In April 1992, the Senate Finance Committee requested that the Bush Administration review Japan's compliance with the 1991 Agreement. In August 1992, after a two-month U.S. interagency review, the U.S. government concluded that "since the Agreement came into effect in August 1991, efforts by the Japanese government and Japanese industry to improve market access for foreign semiconductor suppliers have not, to date, resulted in sufficient progress."4/ Shortly thereafter, by the fourth quarter of 1992, foreign semiconductor sales to Japan increased significantly.

Second, the U.S. semiconductor industry took vigorous and effective steps to boost its own competitiveness in Japan and elsewhere. U.S. firms improved quality and service, and undertook initiatives to boost the performance of microelectronics educational programs in American universities through the Semiconductor Research Corporation (SRC). The U.S. industry also continues to provide $100 million annually to the SEMATECH R&D government-industry consortium in order to improve the competitive position of American semiconductor manufacturing technology.

Third, the U.S. semiconductor industry continues to invest extensive resources in meeting the rigorous demands of Japan's market. From 1986 to 1989, American chip makers opened more than one new facility in Japan each month to serve the Japanese market. The number of U.S. company personnel during the same period increased nearly 32 percent, and capital expenditures by U.S. companies in Japan rose a remarkable 169 percent. The U.S. semiconductor industry has launched numerous other initiatives to expand sales in Japan. For example, since 1986, the SIA Board of Directors has held one of its quarterly meetings in Tokyo every year. SIA is not aware of any other U.S. trade association that annually meets outside the United States with the objective of increasing exports to a single foreign market. In 1988, SIA opened an office in Tokyo, with initial support from the U.S. Department of Commerce, to coordinate inter-industry contacts,

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4/USTR, "Review Reveals Insufficient Progress on U.S.-Japan Semiconductor Arrangement," Press Release, August 4, 1992.

technical tours, trade seminars, and literature exchanges. The office also provides an industry level perspective to supplement individual U.S. company communications to the Japanese government, media, and industry. SIA also has expanded the extensive inter-industry market access program that it developed with the Electronics Industry Association of Japan (EIAJ) under the 1986 Agreement.

In short, the semiconductor pact has worked because the semiconductor industry had a legitimate grievance concerning lack of access to Japan's market; was the market share leader in all world markets outside of Japan; had strong U.S. government support enforcing the Agreement and enforcing measurable progress under that Agreement; continued its efforts to improve competitiveness; won the cooperation of Japanese industry and government; and benefited from an enforced objective benchmark for measuring success. All of these factors have been instrumental in doubling the foreign market share in Japan since 1986.

CONCLUSION

SIA supports the Clinton Administration's approach to trade with Japan. If the Semiconductor Agreement is used as a model for trade policy, the lesson to draw is that a complex combination of factors brings success, but success is possible. Both industry and government support for the arrangement and an objective measure, used as a clear benchmark, commensurate with competitiveness, are essential. U.S. trade policy must demand results. It is the hope of SIA that the U.S. government, including these two subcommittees, will continue to support the 1991 Semiconductor Agreement and help ensure continued success. Continued steady progress in market share, moving beyond a minimum 20 percent foreign market share average in 1993 will be critical.

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The Semiconductor Industry Association

Since 1977, the Semiconductor Industry Association (SIA) has represented U.S.-based semiconductor manufacturers – an industry whose worldwide sales exceeded $21 billion in 1991. SIA member companies comprise 85 percent of U.S. semiconductor production and employ more than 200,000 Americans. The association's primary focus is on international trade, specifically unfair trade practices and increased access for U.S. products in world markets.

SIA activities also include a broad range of industry concerns including: technology policy, occupational safety and health, environmental issues, industry statistics, government semiconductor procurement, and related issues affecting U.S. semiconductor competitiveness.

SIA Member Companies

SIA Regular Members

Advanced Micro Devices, Inc
Allied Signal Aerospace Company
American Telephone and Telegraph Company
Analog Devices Inc
Atmel Corporation
Cherry Corporation
Digital Equipment Corporation
Ford Microelectronics Corporation
General Electric Company
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International Rectifier Corporation
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LSI Logic Corporation
Micron Technology, Inc
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Semiconductor Research Corporation
Silicon Integrated Systems Corporation
Siltec Corporation
Siltron, Inc
Technecon Analytical
TSMC, USA
Wacker Siltronic Corporation
WaferScale Integration
Ware and Freidenrich

SUMMARY OF STATEMENT OF
THE NATIONAL FOREIGN TRADE COUNCIL, INC. (NFTC)
BEFORE THE
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS
U.S. SENATE
JULY 21, 1993

Witness appearing on behalf of NFTC:

Al Baker
Chairman and Chief Executive Officer,
Halliburton Energy Services

Mr. Chairman, I am Al Baker, chairman and chief executive officer of Halliburton Energy Services, headquartered in Houston, Texas. I am appearing this morning on behalf of the National Foreign Trade Council, Inc., an association of more than 500 U.S. companies engaged in international trade and investment.

We believe that the time has arrived for the United States to lift the trade embargo on Vietnam. We support as a first step President Clinton's decision on July 2 to end U.S. opposition to bridge financing by France and Japan for payment of Vietnam's arrears with the International Monetary Fund. We also support the decision announced last Saturday by Secretary Lord in Hanoi that the U.S. will station officials there to assist American families in the search for missing Americans.

We do not believe, however, that the trade embargo should be linked indefinitely to the resolution of the remaining discrepancy cases of missing servicemen. As Senator Murkowski said earlier this month, "allowing U.S. businesses to enter the Vietnamese market will give us greater opportunities to resolve the POW/MIA issue through increased contacts with the Vietnamese."

Our purpose in appearing here this morning is to emphasize the cost to the U.S. economy and to American companies of maintaining the embargo. Vietnam's rapid economic development and investment by our trading competitors in Vietnam are taking place despite U.S. policy restrictions. The United States is paying a price in lost jobs, lost profits and diminished competitiveness in this rapidly growing region. In the past, because of the cooperation of other countries, the embargo was effective in isolating Vietnam. Now, because our trading competitors have largely abandoned the embargo, it is effective only in isolating the U.S. from the most populous country in one of the world's most dynamic regions - Southeast Asia.

The renewed Vietnamese access to the international financial institutions which will result from last week's action at the IMF will place U.S. business in the unusual position of having its own

government use U.S. tax dollars directly or indirectly to fund economic activity from which they are legally barred. The jobs and profits which will accrue to exporters and investors participating in the resulting increase of economic activity in Vietnam will not benefit Americans. We do not believe that this is a policy that the American people will support. We are also convinced that it would seriously undermine the already tenuous support in this country for U.S. contributions to the international financial institutions.

Vietnam's economy has made impressive progress in recent years. In fact the country is poised to join its neighbors in creating an area of greater regional interdependence. According to the Pacific Economic Cooperation Council, in 1992 Vietnam's real gross domestic product grew at more than 8% and its inflation rate came down to 20% from 60% in 1990. In 1991 Vietnam's liberalized foreign investment regime, relatively low wages, and high literacy caused it to receive more foreign investment ($1.2 billion) than did India or South Korea. The country will be a net exporter of energy and foodstuffs for the foreseeable future. In fact, rising incomes in Vietnam have already created a demand for about $40 million of imported U.S. products a year. Obviously all the profits for these sales go to middlemen in third countries.

The opportunities emerging in Vietnam are being taken up by our Japanese, French, Australian, Thai and overseas Chinese competitors. In February, for example, more than 300 French companies went with President Mitterand on his state visit to Vietnam. Japan has begun providing export finance credits to its companies selling to Vietnam. South Korea's interest was reflected in a visit to Hanoi by its prime minister in November. More than 100 countries now have diplomatic relations with Vietnam. Germany, France and the U.K. have established trade missions with Vietnam, identified specific projects for development and begun giving bilateral aid.

Current investment from the Asian Pacific rim countries (Japan, Korea, Taiwan, Hong Kong, Malaysia, Singapore and Australia) is estimated at $5 to $8 billion (excluding oil exploration) and it is growing. These investments are financing some infrastructure projects, but are mostly concentrated in light industry, agro-processing, tourism and export-oriented industries.

The most active area, however, is the petroleum exploration, development, transportation and refining sector. The petroleum services market is the third most active in the region. Vietnam currently produces about 100,000 barrels a day of crude oil from offshore fields. While the country's potential as an oil producer has not yet been determined, preliminary estimates of crude oil reserves are substantial (up to 22 billion barrels). Since Vietnam now has no refining or petrochemical facilities, it sells this crude abroad and imports all petroleum-based products. The

Vietnamese have invited bids from qualified potential partners for a joint refinery project and have received 17 proposals from European and Pacific rim (mostly Japanese) companies. Vietnam recognizes that U.S. companies are world leaders in technology development and commercialization in this industry, but they will move ahead without it.

The exclusion of the U.S. energy service and engineering and construction firms from this $3 billion market has not affected the flow of investment to Vietnam's petroleum sector. The slow progress down the U.S. "road map" to renewing relations with Vietnam has been a signal to our foreign competitors to work aggressively to preempt our market entry. The danger we presently confront is that as more time passes, our competitors will become too well established to dislodge. U.S. companies currently have technology assets and institutional knowledge pre-dating 1975. But this is a wasting asset which diminishes as foreign competitors, free from the competition of American companies, acquire their own experience and business relationships.

It is important to the flexibility and competitiveness of U.S. companies to be able to operate internationally in consortia with other, often non-U.S. companies. This is the case in the oil business and certainly in the aircraft-building business. For example, the last remaining block of existing oil reserves has reportedly gone to a French-Japanese joint venture.

If U.S. companies cannot participate in a country due to bilateral U.S. sanctions, their attractiveness as a consortium partner is reduced to foreign companies. This is clearly the case in Vietnam where the off-shore oil companies from Europe and elsewhere are operating in consortia. In short, the unilateral trade embargo reduces the U.S. companies' attractiveness as commercial partners and, therefore, reduces competitive opportunities.

A second major area in which opportunities are being lost is the rebuilding of Vietnam's infrastructure - a process which will be greatly accelerated by economic growth made possible by IMF credits and World Bank project lending. Ultimately the Asian Development Bank will resume project lending, but that too will require a change in U.S. policy. It is not possible to discern any policy on the part of the Vietnamese to reserve sectors of their development or product areas for Americans. They have, however, shown an interest in U.S. companies providing price and financial competitiveness to other manufacturers. For example, a Vietnamese cement plant recently requested price quotations for certain Caterpillar equipment. After receiving the information, the Vietnamese immediately used the pricing against a Japanese competitor to drive down his price.

The loss cannot be measured only in the initial sales which are affected. It also affects downstream parts revenue for equipment for three to five years, developing user preferences, and subsequent selling efforts which will require a disproportionate emphasis on price, rather than lowest evaluated cost. For example, a Swiss company is developing a cement plant in Vietnam that could require about $50 million of U.S. cement plant equipment. This project will be funded through Swiss and Vietnamese equity and foreign borrowing and is scheduled for implementation in 1993-94. This will be an opportunity for the U.S. cement plant manufacturers only if the U.S. embargo is lifted and export credit support is provided by Eximbank. Otherwise the deal will go to Japan.

There are two final points which we would like to bring to the Committee's attention. The first has to do with the way in which sanctions are administered and the second with private claims against blocked Vietnamese assets.

The process for administering sanctions by the Office of Foreign Assets Control is essentially secret. The Office's determinations in the case of individual companies are not available to other companies. So long as the embargo is retained, the private sector needs a clear statement defining permissible activity, rather than requiring companies to obtain clearance for every step of their activity. In the case of Vietnam the executive branch has not always been clear about the range of permissible activity and there is a danger that Treasury's interpretation, which often takes considerable time to obtain, will vary from the policy.

The National Foreign Trade Council has long supported the established international law principle that expropriations of property of foreign private investors must receive prompt, adequate and effective compensation from the expropriating state.

In 1975 North Vietnam, in clear violation of international law, expropriated property of U.S. persons in South Vietnam. Vietnam failed to provide prompt, just and adequate compensation as required by international law and by U.S. law. In 1980 Congress directed the Foreign Claims Settlement Commission (FCSC) a quasi-judicial agency within the Department of Justice, to adjudicate the claims of U.S. nationals against Vietnam for expropriations. Of the 534 original claimants, the FCSC certified as valid claims of 192. These U.S. claimants are individuals, charities, and corporations from 33 states. The total amount of these certified claims, including principal and interest, is in excess of $200 million.

Fairness and justice require that as part of the process of normalization of relations with Vietnam, full compensation be paid to those U.S. persons whose property was seized in violation of international law in 1975. It is understood that these claims have

been raised by U.S. government officials in discussion with the Vietnamese, but apparently without result. The U.S. claimants are relying on their government to secure full compensation. Settlement of these claims would reassure U.S. companies that they would be protected against future expropriations.

When the South Vietnamese government collapsed and the North Vietnamese occupied the south, the U.S. government froze all South Vietnamese assets in the U.S. The total amount of these blocked assets held in U.S. banks in interest-bearing accounts or securities is about $260 million. The United States would be justified under international law in employing these blocked assets to compensate U.S. claimants. In fact, any claim Vietnam may have asserted to the blocked assets is fatally flawed since it would be based upon its aggression against South Vietnam and its serious violations of international law in seizing private properties. Settlement, in accordance with international law must be an integral element of normalization with Vietnam.

In conclusion, the National Foreign Trade Council believes that these are compelling reasons for the United States to lift the trade embargo on Vietnam. After all, U.S. leverage over Vietnam will not end with the lifting of the embargo. There will still remain extension of diplomatic recognition, most-favored-nation status, and the business support programs of the U.S. government such as Eximbank and OPIC programs. Finally, of course, Vietnam will be subject to the provisions of the Jackson-Vanik amendment to the 1974 Trade Act. For all these reasons we believe that it is appropriate to move now to lift the embargo.

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